

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

SPECIAL AUTHORITY MEETING

A G E N D A

August 2, 2021 | 1:30 p.m.

735 East Michigan Avenue, Lansing, Michigan

Conference Line: 248-509-0316 | Conference ID: 649 566 747#

Roll Call:

Approval of Agenda:

Tab A Agenda – August 2, 2021

Discussion:

Candidate Interviews for the Position of Executive Director.

Public Comments:

VOTING ITEMS

Tab B Resolution Determining Mortgage Loan Feasibility, **Hildebrandt Park Apartments, MSHDA Development No. 3967**, City of Lansing, Ingham County

Resolution Authorizing Mortgage Loan, **Hildebrandt Park Apartments, MSHDA Development No. 3967**, City of Lansing, Ingham County

Tab C Resolution Determining Mortgage Loan Feasibility, **LaRoy Froh, MSHDA Development No. 3968**, City of Lansing, Ingham County

Resolution Authorizing Mortgage Loan, **LaRoy Froh, MSHDA Development No. 3968**, City of Lansing, Ingham County

Tab D Resolution Determining Mortgage Loan Feasibility, **Lockwood of Ann Arbor, MSHDA Development No. 3845**, City of Ann Arbor, Washtenaw County

Resolution Authorizing Mortgage Loan, **Lockwood of Ann Arbor, MSHDA Development No. 3845**, City of Ann Arbor, Washtenaw County

Tab E Resolution Determining Mortgage Loan Feasibility, **Pinehurst Townhomes, MSHDA Development No. 955-2**, Township of Oshtemo, Kalamazoo County

Resolution Authorizing Mortgage Loan, **Pinehurst Townhomes, MSHDA Development No. 955-2**, Township of Oshtemo, Kalamazoo County

Closed Session:

None.

Reports:

Tab 1 Mortgage Loan Increase Policy



MSHDA

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

M E M O R A N D U M

TO: Authority Members

FROM: Gary Heidel, Acting Executive Director

DATE: August 2, 2021

RE: Hildebrandt Park, Development No. 3967

Gary Heidel

RECOMMENDATION:

I recommend that the Michigan State Housing Development Authority (the "Authority") adopt resolutions that 1) determine Mortgage Loan Feasibility as to the following proposal, 2) authorize a tax-exempt bond mortgage loan in the amount set forth in the staff report, 3) authorize waivers of the Multifamily Direct Lending Parameters regarding repayment of HOME loan and the establishment of an operating deficit reserve, and 4) authorize the Executive Director, or an Authorized Officer of the Authority, to issue the Authority's Mortgage Loan Commitment with respect to this development, subject to the terms and conditions set forth in the staff report.

PROJECT SUMMARY:

MSHDA No:	3967
Development Name:	Hildebrandt Park
Development Location:	City of Lansing, Ingham County
Sponsor:	Lansing Housing Commission
Mortgagor:	Hildebrandt Park Limited Dividend Housing Association Limited Partnership
Number of Units (Affordable and Market Rate):	100 affordable family units
Occupancy Rate:	95%
Total Development Cost:	\$22,200,179
TE Bond Construction Loan:	\$11,544,093
TE Bond Permanent Loan:	\$ 7,390,751
MSHDA Gap Funds:	\$ 334,062 HOME Funds
Seller's Note:	\$ 5,500,000
Sponsor Loan:	\$ 344,515

EXECUTIVE SUMMARY:

Hildebrandt Park (the “Development”) is located on the north side of Lansing. The existing units consist of 1, 2-, 3-, 4-, and 5-bedroom units. The development consists of 20 residential buildings and a community building. The community building contains facilities such as a community room, childcare/learning facilities, a resident services coordinator’s office, and management offices.

The project sponsor, Lansing Housing Commission (“LHC”), will serve as a managing general partner of the ownership entity. LHC brings decades of experience in providing affordable housing. LHC has identified Chesapeake Community Advisors as their development consultant. I am recommending Board approval for the following reasons:

- The Development’s affordability will be extended for up to 50 years for all units.
- All units will be refurbished to meet the physical needs of the Development.
- Financing the Development results in a new earning asset for the Authority.
- As an existing family development that will be 100% subsidized, the Development should be low risk to the Authority.

ADVANCING THE AUTHORITY’S MISSION:

- 100% of the Development’s family units will be covered by Housing Assistance Payment (“HAP”) Contracts.
- The Development needs an extensive rehabilitation to continue providing safe, efficient units for all residents.

MUNICIPAL SUPPORT:

- The Development operates with an approved 10% payment in lieu of taxes (“PILOT”). The PILOT is based on the tenant portion of the rent and not the subsidy.

COMMUNITY ENGAGEMENT/IMPACT:

The sponsor has discussed the Development with the Mayor of Lansing. The sponsor received a letter from the City of Lansing showing its support for the rehabilitation of this housing project.

The rehabilitation enabled by the financing of this Development will improve the lives of residents as well as the broader community. A new 20-year HAP contract will be approved upon closing of this transaction. The Affordability period for these units ranges from 20 to 50 years, depending on the funding source.

RESIDENT IMPACT:

- The planned rehabilitation of the Development will not result in any tenant displacement or rent increases.

ISSUES, POLICY CONSIDERATIONS, AND RELATED ACTIONS:

The Development is a 100-unit public housing development which is owned and managed by

LHC. The sponsor is proposing a substantial rehabilitation of the existing structures and surface areas. The Development is currently fully subsidized via a United States Department Housing and Urban Development ("HUD") Annual Contributions Contract ("ACC") subsidy, but the Development will be converting to HUD's Rental Assistance Development ("RAD") program.

The owner has been notified by HUD that the Development is eligible to apply for a Contract to enter into a Housing Assistance Payment ("CHAP") for all 100 units. As part of the RAD Conversion, 40% of the units will be converted to LHC project-based vouchers which generate higher revenue for the Development.

The Development requires waivers of the following Multifamily Direct Lending Parameters requirements:

- a. Annual payments equal to 50% of cash available for distribution are required on gap loans after 12 years or the year in which the sum of all surplus cash available for distribution equals the amount of deferred developer fee (Section II.B.2). In this case, the 50% payment will begin immediately following the first year after construction completion because the development fee is over \$2.1 million; furthermore, any cost savings and residual receipts during the construction period will be used to pay down the gap loan.
- b. The establishment of an Operating Deficit Reserve if a development does not have sufficient cash flow to maintain a DCR of 1.0 over the 20-year period (Section III.K.) (due to its small size, the ODR will be combined with the Operating Assurance Reserve).



MORTGAGE LOAN FEASIBILITY/COMMITMENT STAFF REPORT

August 2, 2021

RECOMMENDATION:

I recommend that the Michigan State Housing Development Authority (the "Authority") adopt resolutions that 1) determine Mortgage Loan Feasibility as to the following proposal, 2) authorize a tax-exempt bond loan in the amount set forth in this report, 3) authorize waivers of the Multifamily Direct Lending Parameters regarding repayment of HOME loan and the establishment of an operating deficit reserve, and 4) authorize the Executive Director, or an Authorized Officer of the Authority, to issue the Authority's Mortgage Loan Commitment with respect to this development, subject to the terms and conditions set forth in this report.

<u>MSHDA No.:</u>	3967
<u>Development Name:</u>	Hildebrandt Park Apartments
<u>Development Location:</u>	City of Lansing, Ingham County
<u>Sponsor:</u>	Lansing Housing Commission
<u>Mortgagor:</u>	Hildebrandt Park Limited Dividend Housing Association Limited Partnership
<u>TE Bond Construction Loan:</u>	\$11,544,093 (52% of TDC)
<u>TE Bond Permanent Loan:</u>	\$7,390,751
<u>MSHDA HOME Loan:</u>	\$334,062
<u>Total Development Cost:</u>	\$22,200,179
<u>Mortgage Amortization and Term:</u>	40 years for the tax-exempt bond loan; 50 years for the HOME loan
<u>Interest Rate:</u>	3.95% for the tax-exempt bond loan; 1% simple interest for the HOME loan
<u>Program:</u>	Tax-Exempt Bond and Gap Financing Programs
<u>Number of Units:</u>	100 family units of rehabilitation
<u>Unit Configuration:</u>	10 one-bedroom, one-bath units; 33 two-bedroom, one-bath units; 39 three-bedroom, one-bath units; 13 four-bedroom, two-bath-units; 5 five-bedroom, two-bath bath units
<u>Builder:</u>	Oakwood Construction Company
<u>Syndicator:</u>	Cinnaire
<u>Date Application Received:</u>	August 15, 2020
<u>HDO:</u>	Ryan Koenigsknecht

Issuance of the Authority's Mortgage Loan Commitment is subject to fulfillment of all Authority processing and review requirements and obtaining all necessary staff approvals as required by the Authority's underwriting standards.

ISSUES, POLICY CONSIDERATIONS AND RELATED ACTIONS:

Hildebrandt Park (the “Development”) is a 100-unit public housing development which is owned and managed by the Lansing Housing Commission (“LHC”). The sponsor is proposing a substantial rehabilitation of the existing structures and surface areas. The Development is currently fully subsidized via a United States Department Housing and Urban Development (“HUD”) Annual Contributions Contract (“ACC”) subsidy, but the Development will be converting to HUD’s Rental Assistance Demonstration (“RAD”) program.

The owner has been notified by HUD that the Development is eligible to apply for a Contract to enter into a Housing Assistance Payment (“CHAP”) for all 100 units. As part of the RAD Conversion, 40% of the units will be converted to LHC project-based vouchers which generate higher revenue for the Development.

The Development requires waivers of the following Direct Lending Parameters:

- Annual payments equal to 50% of cash available for distribution are required on gap loans after 12 years or the year in which the sum of all surplus cash available for distribution equals the amount of deferred developer fee (Section II.B.2). In this case, the 50% payment will begin immediately following the first year after construction completion because the development fee is over \$2.1 million; furthermore, any cost savings and residual receipts during the construction period will be used to pay down the gap loan.
- The establishment of an Operating Deficit Reserve if a development does not have sufficient cash flow to maintain a DCR of 1.0 over the 20-year period (Section III.K.) (due to its small size, the ODR will be combined with the Operating Assurance Reserve).

EXECUTIVE SUMMARY:

The Development is located on the north side of Lansing. The existing units consist of 1, 2-, 3-, 4-, and 5-bedroom units. The Development consists of 20 residential buildings and a community building. The community building contains facilities such as a community room, childcare/learning facilities, a resident services coordinator’s office, and management offices.

The project sponsor, LHC, will serve as a managing general partner of the ownership entity. LHC brings decades of experience in providing affordable housing. LHC has identified Chesapeake Community Advisors as their development consultant.

Structure of the Transaction and Funding:

There are several elements to this transaction that are common to preservation transactions:

- A tax-exempt bond construction loan will be provided by the Authority in the amount of \$11,544,093 at 3.95% interest with an 18-month term (a 12-month construction term and a 6-month holding period), which will be used to bridge an extended equity pay-in period. Payments of interest only will be required during the construction loan. The principal balance of the construction loan will be reduced to the permanent loan amount due on the first day of the month following the month in which the 18-month construction loan term

Mortgage Feasibility/Commitment Staff Report
Hildebrandt Park Apartments, MSHDA No. 3967
City of Lansing, Ingham County
August 2, 2021

expires or such later date as established by an Authorized Officer of the Authority (the "Permanent Financing Date").

- A permanent Mortgage Loan will be provided by the Authority in the amount of \$7,390,751. The permanent loan amount is based upon the current rents, less vacancy loss, payments to reserves and escrows, operating costs based on historical data unless modified by project improvements and construction and soft costs at levels appropriate for this specific transaction. The permanent loan is based on a 1.15 debt service coverage ratio, an annual interest rate of 3.95%, with a fully amortizing term of 40 years commencing on the Permanent Financing Date. The permanent Mortgage Loan will begin to amortize on the Permanent Financing Date and will be in **First Position**.
- A permanent subordinate loan using HOME funds (the "HOME Loan") in the amount of \$334,062 will be provided at 1% simple interest with payments. The HOME Loan will be in **Second Position**.
- The Sponsor is providing a loan in the amount of \$344,515. See Special Condition No. 3.
- The Seller is providing a Seller's Note in the amount of \$5,500,000. See Special Condition No. 4.
- Equity support comes from an investment related to the 4% LIHTC in the estimate amount of \$8,185,151.
- Income from operations will be used as a source of funding to make the interest only payments and the tax and insurance payments during the construction period in the amount of \$445,700.
- A HUD RAD conversion will provide 100 project-based vouchers.
- An amount equal to one month's gross rent potential will be funded in the Development's operating account.
- An operating assurance reserve ("OAR") will be required in the amount identified in the attached proforma. The reserve will be capitalized at closing in an amount which, along with accumulated interest, is expected to meet the Development's unanticipated operating needs. This reserve will be held by the Authority.
- A syndicator reserve in the amount of \$162,559 is required by the equity investor for additional operational needs. This reserve will be held by the Syndicator. See Special Condition No. 2.
- Due to its small size, the operating deficit reserve ("ODR") has been combined with the OAR and the condition for a separate ODR has been intentionally omitted.
- The Development will be renovated, and a new replacement reserve requirement imposed, based upon a capital needs assessment ("CNA"), to ensure an extension of the useful life of the property and to maintain an excellent quality of life for the residents. At the closing, the Mortgagor must deposit the amount determined necessary to satisfy the requirements of the Authority-approved CNA over a 20-year period. This reserve will be held by the Authority.

Scope of Rehabilitation:

The following improvements to the property are included in the Scope of Work:

- Parking lots and drives to be milled and resurfaced
- Provide new dumpster enclosures with gates

- Repair all damaged concrete walks, curbs, and ramps
- Patch, repair, and tuck point low retaining masonry wall in front building
- Replace damaged and overgrown landscaping
- Install new landscape
- Site-wide mulching including playground area
- Remove and replace chain link fence. Replace with vinyl fencing
- Upgrade playground equipment
- Provide on-site security cameras
- Remove and replace roofing with new dimensional shingles
- Remove and replace gutters and downspouts
- Paint interior of the Community Building
- Remove and replace all countertops, backsplashes, sinks, and faucets
- Replace all kitchen appliances
- All bathrooms to be fully renovated; second bathroom added in 4- and 5-bedroom units
- Replace all hot water heaters
- Upgrade lighting to LED
- Remove and replace rusted ducts in the basement
- Replace main electrical panel to accommodate new electrical load
- Provide GFCI outlets as required by code

Affordability Requirements:

The Authority's tax-exempt bond regulatory agreement will require that all of the dwelling units in the property remain occupied by households with incomes at or below 60% of the Multifamily Tax Subsidy Project ("MTSP") income limit, adjusted for family size. The number of restricted units is controlled by the number of eligible households in place at closing, estimated to be 100% of the units. Units will be further restricted to the income limits required by the HAP Contract.

Protections for Existing Residents:

The preservation and renovation of the Development will not result in a rent increase for the existing tenants. There will be no tenant displacement as a result of this transaction.

Site Selection:

The site has been vetted by Authority Staff and the Authority's Manager of the office of Market Research has indicated that the site meets the Authorities current site selection criteria.

Market Evaluation:

The unit mix as well as the amenities package and rent levels have been approved by the Manager of the office of Market Research.

Valuation of the Property:

An appraisal dated May 19, 2020, estimates the value at \$5,510,000.

CONDITIONS:

At or prior to (i) issuance of the Authority's mortgage loan commitment ("Mortgage Loan Commitment"), (ii) the initial Mortgage Loan Closing (the "Initial Closing"), or (iii) such other date as may be specified herein, the new Mortgagor and other members of the Development team, where

appropriate, must satisfy each of the following conditions by entering into a written agreement or providing documentation acceptable to the Authority:

Standard Conditions:

1. Limitation for Return on Equity:

For each year of the Development's operation, beginning in the year in which the Mortgage Cut-Off Date occurs, as determined by the Authority, payments are limited to twelve percent (12%) of the Mortgagor's equity. Following expiration of the HAP Contract, the Mortgagor's rate of return shall not exceed twenty-five percent (25%) per annum. For purposes of distributions, the Mortgagor's equity will be the sum of (i) the LIHTC equity; (ii) the brownfield tax credit equity; (iii) the historic tax credit equity; (iv) general partner capital contributions; and (v) any interest earned on an equity escrow held by the Authority, unless HUD or other federal regulations require a different calculation. All such payments shall be referred to as "Limited Dividend Payments." The Mortgagor's return shall be fully cumulative.

2. Income Limits:

The income limitations for 100 units of this proposal are as follows:

- a. 5 units have been designated as Low-HOME units and during the Period of Affordability required under the HOME program (15 years) must be available for occupancy by households whose incomes do not exceed the Low HOME income limit as published by HUD, adjusted for family size.
- b. 100 units (10 one-bedroom units, 33 two-bedroom units, 39 three-bedroom units, 13 Four-bedroom units, and 5 five-bedroom units) must be occupied or available for occupancy by households whose incomes do not exceed the income limits in the HAP Contract for so long as the HAP Contract between the Mortgagor and the Authority is in effect (including extensions and renewals), or for such longer period as determined by HUD.
- c. 100 units (10 one-bedroom units, 33 two-bedroom units, 39 three-bedroom units, 13 four-bedroom units, and 5 five-bedroom units) must be available for occupancy by households whose incomes do not exceed the MTSP 60% income limits, adjusted for family size, until latest of (i) the expiration of the LIHTC "Extended Use Period" as defined in the Development's LIHTC Regulatory Agreement; (ii) 50 years from Initial Closing; or (iii) so long as any Authority loan remains outstanding.

To the extent units within the Development are subject to multiple sets of income limits, the most restrictive income limit will apply so long as the applicable term of affordability continues.

The income of individuals and area median income shall be determined by the Secretary of the Treasury in a manner consistent with determinations of lower income families and area median income under Section 8 of the U.S. Housing Act of 1937, including adjustments for family size.

3. Limitations on Rental Rates:

The Total Housing Expense (contract rent plus tenant-paid utilities) for 100 units is subject to the following limitations:

- a. During the Period of Affordability required under the HOME program (50 years), the Total Housing Expense for the 5 Low-HOME units may not exceed the "Low-HOME Rent Limit" for the unit established and published annually by HUD.
- b. So long as the HAP Contract remains in effect, the Mortgagor agrees to establish and maintain rents for all HAP-assisted units (10 one-bedroom units, 33 two-bedroom units, 39 three-bedroom units, 13 Four-bedroom units, and 5 five- bedroom units) ("Contract Rents") that comply with the rent levels established by the HAP Contract and that do not exceed the rent levels approved by HUD.
- c. The Total Housing Expense for all 100 units (10 one-bedroom units, 33 two-bedroom units, 39 three-bedroom units, 13 four-bedroom units, and 5 five-bedroom units), may not exceed one-twelfth ($1/12^{\text{th}}$) of 30% of 60% of the MTSP limit, adjusted for family size and based upon an imputed occupancy of one and one-half persons per bedroom. This restriction will apply until the latest of (i) the end of the Extended Use Period, (ii) 50 years after Initial Closing; or (iii) so long as any Authority loan remains outstanding.

To the extent units within the Development are subject to multiple sets of rent limits, the most restrictive rent limit will apply so long as the applicable term of affordability continues.

For the initial lease term of the first household occupying each rent restricted unit in the Development the initial rent may not exceed 105% of the rent approved in this Mortgage Loan Feasibility/Commitment Staff Report. Rental increases on occupied units during any 12-month period will be limited to not more than 5% of the rent paid by the resident household at the beginning of that annual period. Exceptions to this limitation may be granted by MSHDA's Director of Asset Management for extraordinary increases in project operating expenses (exclusive of limited dividend payments) or mortgage loan increases to fund cost overruns pursuant to the Authority's policy on Mortgage Loan increases. Rents on vacated units may be increased to the maximum level permissible by the applicable programs. Rents and utility allowances must be approved annually by the Authority's Division of Asset Management.

Exceptions to the foregoing limitations may be granted by the Authority's Director of Asset Management to pay for extraordinary increases in operating expenses (exclusive of Limited Dividend Payments) or to enable the owner to amortize a Mortgage Loan increase to fund cost overruns pursuant to the Authority's policy on Mortgage Loan increases.

4. Covenant Running with the Land:

The Mortgagor must subject the Development site to a covenant running with the land so as to preserve the tax-exempt status of the obligations issued or to be issued to finance the Mortgage Loan. This covenant will provide that each unit must be rented or available for rental on a continuous basis to members of the general public for a period ending on the latest of the date which is 15 years after the date on which 50% of the residential units in the Development are occupied, the first day on which no bonds are outstanding with respect to the project, or the date on which assistance provided to the project under Section 8 of the U.S. Housing Act of 1937 terminates. The income of individuals and area median income shall be determined by the Secretary of the Treasury in a manner consistent with determinations of lower income families and area median income under Section 8 of the U.S. Housing Act of 1937, including adjustments for family size. Until the Secretary of the

Treasury publishes its requirements, income of the individuals shall be determined in accordance with Section 8 regulations. Additionally, if LIHTC is awarded to the Development, the Mortgagor must agree to subject the property to the extended low income use commitment required by Section 42 of the Internal Revenue Code.

5. Restriction on Prepayment and Subsequent Use:

The Mortgage Loan is eligible for prepayment after the expiration of fifteen (15) years after the commencement of amortization. The Mortgagor must provide the Authority with at least 60 days' written notice prior to any such prepayment.

In the event of a prepayment, however, the Mortgagor must pay a prepayment fee equal to the sum of:

- a. 1% of the balance being prepaid;
- b. Any bond call premium, prepayment or swap penalty, or any other cost that the Authority incurs to prepay the bonds or notes that were used to fund the Mortgage Loan; and
- c. Any loss of debt service spread between the Mortgage Loan and the bonds used to finance the loan from the date of the prepayment through the end of the 20th year of amortization.

Once the Mortgagor has been approved for the early prepayment of the underlying loan, it must sign an agreement with the Authority stating it is responsible for the cost of terminating the swap. The Mortgagor can then choose the timing of the termination and participate in the transaction with the swap counterparty. The swap counterparty will quote the cost of terminating the swap and the Mortgagor will have the ability to execute the transaction or cancel at its sole discretion. If the Mortgagor chooses not to terminate the swap, it will forfeit the right to prepay the Mortgage Loan.

6. Operating Assurance Reserve:

At Initial Closing, the Mortgagor shall fund an operating assurance reserve ("OAR") in the amount equal to 4 months of estimated Development operating expenses (estimated to be \$397,523) plus \$3,623 to fund the projected operating deficits. The OAR will be used to fund operating shortfalls incurred at the Development and will be disbursed by the Authority in accordance with the Authority's written policy on the use of the Operating Assurance Reserve, as amended from time to time. The OAR must be either (i) fully funded with cash, or (ii) funded with a combination of cash and an irrevocable, unconditional letter of credit acceptable to the Authority, in an amount that may not exceed 50% of the OAR requirement. To the extent that any portion of the OAR is drawn for use prior to the final closing of the Mortgage Loan, the Mortgagor must restore the OAR to its original balance at final closing.

7. Replacement Reserve:

At Initial Closing, the Mortgagor must establish a replacement reserve fund ("Replacement Reserve") with an initial deposit in an amount of \$6,943 per unit. The Mortgagor must agree to make annual deposits to the Replacement Reserve, beginning on the Mortgage Cut-Off Date, at a minimum of \$300 per unit for the first year of operation, payable in monthly installments, with deposits in subsequent years to be the greater of (i) the prior year's deposit, increased by 3%, or (ii) a percentage of the Development's projected annual rental

income or gross rent potential ("GRP") for the year using the percentage obtained by dividing the first year's deposit by the first year's GRP shown on the operating proforma for the Development attached hereto. The annual deposit to the Replacement Reserve may also be increased to any higher amount that is determined to be necessary by the Authority, based on a CNA and the Authority's Replacement Reserve policies. The Authority may update any CNA or obtain a new CNA every five years, or upon any frequency, as determined necessary by the Authority.

8. One Month's Gross Rent Potential:

At Initial Closing, the Mortgagor shall deposit an amount equal to one month's gross rent potential (\$102,563) into the Development's operating account.

9. Subordinate Loan(s):

At Initial Closing, the Mortgagor must enter into agreements relating to the HOME Loan. The HOME Loan will be secured by a subordinate mortgage and will bear simple interest at 1% with a 50-year term. Following the first year after construction completion, repayment of the HOME Loan will be made from fifty percent (50%) of any surplus cash available for distribution. Such payments shall be applied first to accrued interest, then to current interest and principal. Payments shall continue until the sale of the Development or refinancing of the Mortgage Loan, at which time the HOME Loan shall be due in full. If the HOME Loan is still outstanding, then following repayment of the Mortgage Loan and continuing on the first day of every month thereafter, the Mortgagor shall make monthly payments of principal and interest equal to the monthly payments that were required on the Mortgage Loan on the first day of every month until the HOME Loan is paid in full, sale of the Development or the date that is 50 years from date of Initial Closing, whichever occurs first.

10. Architectural Plans and Specifications; Contractor's Qualification Statement:

Prior to Mortgage Loan Commitment, the architect must submit architectural drawings and specifications that address all design review comments, acceptable to the Authority's Chief Architect and the Director of Development.

Prior to Mortgage Loan Commitment, the general contractor must submit AIA Document A305 as required by the Authority's Chief Architect.

11. Owner/Architect Agreement:

Prior to Mortgage Loan Commitment, the Mortgagor must provide the Authority with an executed Owner Architect Agreement acceptable in form and substance to the Director of Legal Affairs.

12. Trade Payment Breakdown:

Prior to Mortgage Loan Commitment, the general contractor must submit a signed Trade Payment Breakdown acceptable to the Authority's Design and Construction Manager.

13. Section 3 Requirements:

Prior to Mortgage Loan Commitment, the general contractor must agree to comply with all federal Section 3 hiring requirements. The general contractor must provide a copy of the contractor's "Section 3 Hiring Plan" which must be reviewed and found acceptable to the

Authority's Section 3 Compliance Officer. In addition, the general contractor must agree to adhere to follow-up reporting requirements as established by the Authority.

14. Equal Opportunity and Fair Housing:

Prior to Mortgage Loan Commitment, the management and marketing agent's Affirmative Fair Housing Marketing Plan must be reviewed and found acceptable to the Authority's Equal Employment Officer for Fair Housing Requirements.

In addition, prior to Mortgage Loan Commitment, the general contractor's Equal Employment Opportunity Plan must be reviewed and found acceptable to the Authority's Equal Employment Officer.

15. Davis-Bacon and Cross-cutting Federal Requirements:

The general contractor will be required to comply with all federal prevailing wage requirements, the requirements of the Davis-Bacon and Related Acts, and other applicable federal regulations as required under the terms of the RAD Program.

16. Cost Certification:

The contractor's cost certification must be submitted within 90 days following the completion of construction, and the Mortgagor's cost certification must be submitted within 90 days following the Mortgage Cut-off Date. For LIHTC, the owner is obligated to submit cost certifications applicable to itself and the contractor prior to issuance of IRS form 8609 (see LIHTC Program Cost Certification Guidelines).

17. Environmental Review and Indemnification:

Prior to Mortgage Loan Commitment, the Mortgagor must address any outstanding environmental issues, in form and substance acceptable to the Authority's Environmental Review Officer.

At Initial Closing, the Mortgagor must enter an agreement to indemnify the Authority for any loss, damage, liability, claim, or expense which it incurs as a result of any violation of environmental laws. The indemnification agreement must be acceptable to the Director of Legal Affairs.

18. Title Insurance Commitment and Survey:

Prior to Mortgage Loan Commitment, the Mortgagor must provide an updated title insurance commitment, including zoning, pending disbursement, comprehensive, survey and such other endorsements as deemed necessary by the Authority's Director of Legal Affairs. The updated title commitment must contain only exceptions to the insurance acceptable to the Authority's Director of Legal Affairs.

Additionally, prior to Mortgage Loan Commitment, the Mortgagor must provide a surveyor's certificate of facts together with an ALTA survey certified to the 2021 minimum standards, and that appropriately reflects all easements, rights of way, and other issues noted on the

title insurance commitment. All documents must be acceptable to the Director of Legal Affairs.

19. Organizational Documents/Equity Pay-In Schedule:

Prior to Mortgage Loan Commitment, the Mortgagor must submit a substantially final form syndication partnership agreement, including an equity pay-in schedule, that is acceptable in form and substance to the Director of Development and Director of Legal Affairs.

At or prior to Initial Closing, the final, executed syndication partnership agreement must become effective and the initial installment of equity must be paid in an amount approved by the Director of Development.

20. Designation of Authority Funds:

The Authority reserves the express right, in its sole discretion, to substitute alternate subordinate funding sources.

21. Management & Marketing:

Prior to Mortgage Loan Commitment, the management and marketing agent must submit the following documents, which must be found acceptable to the Director of Asset Management:

- a. Management Agreement
- b. Marketing/Construction Transition Plan

22. Guaranties:

At Initial Closing, the Sponsor, General Partner, and any entity receiving a developer fee in connection with the Development must deliver certain guaranties. The required guaranties include a guaranty of HOME recapture liability, an operating deficit guaranty and a performance completion guaranty. The required guaranties, the terms thereof and the parties who shall be required to deliver the guaranty must be determined and approved by the Authority's Director of Development.

23. Financial Statements:

Prior to Mortgage Loan Commitment, financial statements for the Sponsor, the guarantor(s) and the general contractor must be reviewed and found acceptable by the Authority's Chief Financial Officer.

If prior to Initial Closing the financial statements that were approved by the Authority become more than six months old, the Sponsor, the guarantor(s) and/or the general contractor must provide the Authority with updated financial statements meeting Authority requirements upon request.

24. Future Contributions:

To ensure the Authority is contributing the least amount of funding necessary to achieve project feasibility, any decrease in Development costs or future contributions not included in the Development proforma may, at the Authority's discretion, be utilized to reduce, in equal proportions, any deferred developer fee and Authority soft funds.

25. Ownership of Development Reserves:

At the Initial Closing, the Mortgagor must enter into an agreement confirming the Authority's ultimate ownership of excess cash reserves, escrows and accounts as may exist at the time the Authority's mortgage loans are paid off or the Development is sold or refinanced. This agreement must be acceptable to the Authority's Director of Legal Affairs.

26. Section 8 Required Approvals - HUD and MSHDA:

This transaction is subject to certain HUD approvals including, but not limited to 1) assignment of the HAP Contract and 2) previous participation approval (HUD Form 2530) for the Mortgagor, its partners, and property management agent. Prior to the Initial Closing, the HUD approvals must be obtained and must be consistent with the loan structure and intent of the transaction as described in this report. The approvals by HUD are subject to review and concurrence by the Authority's Director of Legal Affairs. The Mortgagor must enter into all agreements as may be required by HUD and to abide by all terms, conditions, and requirements of the Section 8 Program and all other Authority rules, guidelines, and procedures as required under the Regulatory Agreement.

27. HAP Extension:

At Initial Closing, the Mortgagor must enter into an agreement to apply for and accept any HAP or other HUD subsidy extensions available in the future, subject to Authority approval.

28. HUD Authority to Use Grant Funds:

Prior to Mortgage Loan Commitment, the Authority must receive HUD's Authority to Use Grant Funds (HUD 7015.16) in connection with the proposed HOME Loan from the Authority or confirmation that the Development is categorically excluded from NEPA review.

29. HUD Subsidy Layering Review:

Prior to Initial Closing, the subsidy layering review must be performed by Authority staff and must be submitted to HUD for approval. The subsidy layering approval is subject to review and approval by the Authority's Director of Development.

30. Application for Disbursement:

Prior to Initial Closing, the Mortgagor must submit an "Application for Disbursement" along with supporting documentation, which must be found acceptable to the Authority's Director of Development.

31. Uniform Relocation Act Compliance:

If the Development is occupied at Initial Closing and any occupants of the Development will be displaced and/or relocated as a result of the rehabilitation of the Development, then the Mortgagor and/or the Sponsor shall ensure compliance with all requirements of the Uniform Relocation Act and implementing regulations as set forth in 24 CFR Part 42 and 49 CFR Part 24, as well as 24 CFR §570.606. Such compliance shall be at the Mortgagor's or Sponsor's sole cost and expense. Prior to Final Closing, the Mortgagor must submit documentation that it has complied with all requirements of the Uniform Relocation Act. This documentation must be found acceptable by the Authority's Director of Development.

Special Conditions:

1. Legal Requirements:

**Mortgage Feasibility/Commitment Staff Report
Hildebrandt Park Apartments, MSHDA No. 3967
City of Lansing, Ingham County
August 2, 2021**

The Mortgagor and/or Sponsor must submit documentation acceptable to the Authority's Director of Legal Affairs for the items listed below:

- Prior to Initial Closing, the Michigan Attorney General's Office must complete its review of the transaction and provide the Director of Legal Affairs its recommendation.
- Any other documentation as required by the Director of Legal Affairs, including acceptable evidence of insurance, permits, licenses, zoning approvals, utility availability, payment and performance bonds and other closing requirements.

2. Syndicator Reserve:

The Mortgagor shall fund a syndicator held reserve ("Syndicator Reserve") with a one-time deposit in the amount of \$162,559 paid from equity proceeds according to the terms of the Mortgagor's limited partnership agreement. The Syndicator Reserve shall be controlled by the syndicator. The purpose of this reserve will be to fund additional operational needs.

3. Sponsor Loan:

Prior to Mortgage Loan Commitment, the Mortgagor must submit substantially final documents evidencing the Sponsor loan acceptable to the Authority's Director of Legal Affairs and Director of Development. The Sponsor loan must:

- a) not be secured by a lien on the Development or any of the Development's property, funds or assets of any kind;
- b) be payable solely from approved Limited Dividend payments, and not from other development funds;
- c) be expressly subordinate to all Authority mortgage loans; and
- d) have a loan term not less than the longest term of all Authority mortgage loans.

At or prior to Initial Closing, the final, executed Sponsor loan documents must become effective and initial funding of the loan must be made in an amount approved by the Director of Development.

4. Seller's Note:

Prior to Mortgage Loan Commitment, the Mortgagor must submit substantially final documents evidencing the Sponsor loan acceptable to the Authority's Director of Legal Affairs and Director of Development. The Sponsor loan must:

- a) be secured by a lien on the Development or any of the Development's property, funds or assets of any kind;
- b) be payable solely from approved Limited Dividend payments, and not from other development funds;
- c) be expressly subordinate to all Authority mortgage loans; and
- d) have a loan term not less than the longest term of all Authority mortgage loans.

At or prior to Initial Closing, the final, executed Sponsor loan documents must become effective and initial funding of the loan must be made in an amount approved by the Director of Development.

5. Residual receipts and cost savings at the end of the construction period:

Any cost savings and residual receipts identified in any post-construction cost certification or audit that would otherwise be used to pay down deferred developer fee will be applied to HOME Loan interest and then principal.

DEVELOPMENT TEAM AND SITE INFORMATION

I. **MORTGAGOR:** Hildebrandt Park Limited Dividend Housing Association
Limited Partnership

II. **GUARANTOR(S):**

A. **Guarantor #1:**

Name: Lansing Housing Commission
 Address: 419 Cherry Street
 Lansing, MI 48933

III. **DEVELOPMENT TEAM ANALYSIS:**

A. **Sponsor:**

Name: Lansing Housing Commission
 Address: 419 Cherry Street
 Lansing, MI 48933

Individuals Assigned: Doug Fleming
 Telephone: 517-478-6550
 E-mail: dfleming@lanshc.org

1. **Experience:** The Sponsor has experience working on Authority-financed developments.

2. **Interest in the Mortgagor and Members:** Hildebrandt Park GP LLC (0.01%); Lansing Housing Commission (99.99%)

B. **Architect:**

Name: Fusco, Shaffer, & Pappas, inc.
 Address: 550 E. Nine Mile Road
 Ferndale, MI 48220

Individual Assigned: James Pappas
 Telephone: 248-543-4100
 E-Mail: jpappas@fpsarch.com

1. **Experience:** Architect has previous experience with Authority-financed developments.

2. **Architect's License:** License number 1301029064, exp. 04/01/2023.

C. Attorney:

Name: Mallory, Lapka, Scott, & Selin, PLLC
Address: 605 S. Capitol Avenue
Lansing, MI 48933

Individual Assigned: Thomas Lapka
Telephone: 517-482-0222
E-Mail: toml@mcclpc.com

1. **Experience:** This firm has experience in closing Authority-financed developments.

D. Builder:

Name: Oakwood Construction Company
Address: 2308 Science Parkway Suite #101
Okemos, MI 48864

Individual Assigned: Craig Moulton
Telephone: 517-347-1980
E-mail: crgm1tn9@gmail.com

1. **Experience:** The firm has previous experience in constructing Authority-financed developments.
2. **State Licensing Board Registration:** License number 2101100825, with an expiration date of 5/31/2023.

E. Management and Marketing Agent:

Name: Michigan Asset Group
Address: 1161 E. Clark Road
Suite 236
Plainwell, MI 48820

Individual Assigned: Evert Kramer
Telephone: 517-668-6447
E-mail: evert@miasset.com

1. **Experience:** This firm has significant experience managing Authority-financed developments.

F. Development Team Recommendation: GO

IV. SITE DATA:

**Mortgage Feasibility/Commitment Staff Report
Hildebrandt Park Apartments, MSHDA No. 3967
City of Lansing, Ingham County
August 2, 2021**

- A.** Land Control/Purchase Price:
A signed purchase agreement with a purchase price of \$5,500,000 has been executed.
- B.** Site Location:
3122 Turner Road, Lansing, MI 48906
- C.** Size of Site:
8.39 land acres
- D.** Density:
Appropriate
- E.** Physical Description:
1. Present Use: multi-family housing
 2. Existing Structures: 20 residential buildings, Office Building
 3. Relocation Requirements: None
- F.** Zoning:
Multi-family residential
- G.** Contiguous Land Use:
1. North: Single-family residential
 2. South: Commercial; single-family residential
 3. East: Single-family residential
 4. West: Commercial; single-family residential
- H.** Tax Information:
The Development has a special 10% PILOT approved by City of Lansing. Billing is based on actual tenant portion of rent payment, less utility costs (not the Contract Rent Amount).
- I.** Utilities:
Electricity – Lansing Board of Water and Light
Gas – Consumers Energy
Water/Sewer – Lansing Board of Water and Light
- J.** Community Facilities:
1. Shopping:
There are 2 Meijer's within 4 miles from the site. Eastwood Towne Center is 2 miles away.

2. Recreation:
Potter Park Zoo is 3.5 miles from the site.
3. Public Transportation:
Capital Area Transportation Authority offer bus service to residents in Lansing.
4. Road Systems
The site is just off of Grand River Avenue in Lansing. The nearest major roadways are I-69 to the north and I-27 to the east.
5. Medical Services and other Nearby Amenities:
Sparrow Hospital and McLaren Hospital are located within 5 miles of the site.
6. Description of Surrounding Neighborhood:
The surrounding neighborhood is mostly single-family homes with a few commercial buildings.
7. Local Community Expenditures Apparent:
The Sponsor submitted a letter prepared by the Mayor of Lansing. The Mayor expressed his strong support for the rehabilitation of this project.
8. Indication of Local Support:
A 10% PILOT has been approved.

V. ENVIRONMENTAL FACTORS:

A Phase I Environmental Site Assessment was submitted to the Authority and has been reviewed by the Authority's Environmental Manager. (See Standard Condition No. 17).

VI. DESIGN AND COSTING STATUS:

Architectural plans and specifications consistent with the scope of work have been reviewed by the Chief Architect. A response to all design review comments and the submission of corrected and final plans and specifications must be made prior to initial closing.

This proposal will satisfy the State of Michigan barrier-free requirements, the Authority's policy regarding accessibility and non-discrimination for the disabled, the Fair Housing Amendments Act of 1988, and the HOME requirements for barrier-free vision and hearing designed units. Construction documents must be acceptable to the Authority's Chief Architect.

VII. MARKET SUMMARY:

The Market study has been reviewed by the Authority's Chief Market Analyst and found to be acceptable. The Authority's Chief Market Analyst has reviewed and approved the unit mix, rental structure, and unit amenities.

VIII. FAIR HOUSING:

The management and marketing agent's Affirmative Fair Housing Marketing Plan must be submitted and reviewed.

IX. MANAGEMENT AND MARKETING:

The management/marketing agent has submitted application-level management and marketing information, to be approved prior to initial closing by the Authority's Director of Asset Management.

X. FINANCIAL STATEMENTS:

The sponsor's/guarantor's and the builder's financial statements have been submitted and are to be approved prior to initial closing by the Authority's Director of Rental Development.

XI. DEVELOPMENT SCHEDULING:

A.	Mortgage Loan Commitment:	August 2021
B.	Initial Closing and Disbursement:	October 2021
C.	Construction Completion:	September 2022
D.	Cut-Off Date:	March 2023

XII. ATTACHMENTS:

- A.** Development Proforma

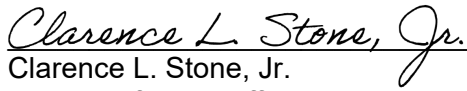
APPROVALS:



7/26/21

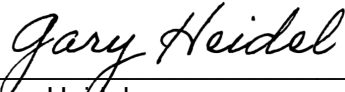
Chad Benson
Director of Development

Date



Clarence L. Stone, Jr.
Director of Legal Affairs

Date



Gary Heidel
Acting Executive Director

Date

Development Hildebrandt Park Apartments
Financing Tax Exempt
MSHDA No. 3967
Step Commitment
Date 08/02/2021
Type Preservation - LIHTC

Instructions

TOTAL DEVELOPMENT COSTS

	Per Unit	Total	% In Basis	Included in Tax Credit Basis	Included in Historic TC Basis
Acquisition					
Land	5,100	510,000	0%	0	0
Existing Buildings	49,900	4,990,000	100%	4,990,000	0
Other:			0%	0	0
Subtotal	55,000	5,500,000			

Construction/Rehabilitation					
Off Site Improvements	0		100%	0	0
On-site Improvements	9,872	987,200	100%	987,200	0
Landscaping and Irrigation	0		100%	0	0
Structures	70,734	7,073,416	100%	7,073,416	0
Community Building and/or Maintenance Facility	156	15,634	100%	15,634	0
Construction not in Tax Credit basis (i.e.Carports and Commercial Space)	0		0%	0	0
General Requirements % of Contract	5.99%	4,845	100%	484,500	484,500
Builder Overhead % of Contract	1.99%	1,710	100%	171,000	171,000
Builder Profit % of Contract	5.99%	5,238	100%	523,750	523,750
Permits, Bond Premium, Tap Fees, Cost Cert.		1,030	100%	103,000	103,000
Temporary Site Security		165	100%	16,500	16,500
Subtotal	93,750	9,375,000			
15% of acquisition and \$15,000/unit test:		met			

Professional Fees					
Design Architect Fees	3,200	320,000	100%	320,000	320,000
Supervisory Architect Fees	800	80,000	100%	80,000	80,000
Engineering/Survey	540	54,000	100%	54,000	54,000
Legal Fees	1,000	100,000	75%	75,000	75,000
Subtotal	5,540	554,000			

Interim Construction Costs					
Property & Casualty Insurance	1,350	135,000	100%	135,000	135,000
Construction Loan Interest	5,378	537,797	70%	376,458	376,458
Title Work	1,500	150,000	65%	97,500	0
Construction Taxes	1,000	100,000	75%	75,000	75,000
Permits paid for by Owner	500	50,000	100%	50,000	50,000
Subtotal	9,728	972,797			

Permanent Financing					
Loan Commitment Fee to MSHDA	2%	2,376	0%	0	0
Other:		0	0%	0	0
Subtotal	2,376	237,563			

Other Costs (In Basis)					
Application Fee	20	2,000	100%	2,000	2,000
Market Study	60	6,000	100%	6,000	6,000
Environmental Studies	1,050	105,000	100%	105,000	105,000
Cost Certification	300	30,000	100%	30,000	30,000
Equipment and Furnishings	1,200	120,000	100%	120,000	0
Temporary Tenant Relocation	3,500	350,000	57%	200,000	200,000
Construction Contingency	9,375	937,500	100%	937,500	937,500
Appraisal and C.N.A.	330	33,000	100%	33,000	33,000
3rd party equity investor construction inspections	120	12,000	100%	12,000	12,000
Subtotal	15,955	1,595,500			

Other Costs (NOT In Basis)					
Start-up and Organization	150	15,000	0%	0	0
Tax Credit Fees (based on 2017 QAP)	59,611	59,611	0%	0	0
Compliance Monitoring Fee (based on 2017 QAP)	475	47,500	0%	0	0
Marketing Expense	78	7,764	0%	0	0
Syndication Legal Fees	300	30,000	0%	0	0
Rent Up Allowance	0	0	0%	0	0
Other:	0	0	0%	0	0
Subtotal	1,599	159,875			

Summary of Acquisition Price	As of	Construction Loan Term
Attributed to Land	510,000	1st Mortgage Balance
Attributed to Existing Structures	4,990,000	Subordinate Mortgage(s)
Other:	0	Subordinate Mortgage(s)
Fixed Price to Seller	5,500,000	Subordinate Mortgage(s)

Premium/(Deficit) vs Existing Debt 5,500,000

Appraised Value	Value As of:	May 19, 2020
"Encumbered As-Is" value as determined by appraisal:		5,510,000
Plus 5% of Appraised Value:		0
LESS Fixed Price to the Seller:		5,500,000
Surplus/(Gap)	Within Range	10,000

Included in Tax Credit Basis Included in Historic TC Basis

Project Reserves

Operating Assurance Reserve	4.0 months	Funded in Cash	3,975	397,523
Replacement Reserve		Required	6,943	694,317
Operating Deficit Reserve		Not Required	0	0
Rent Subsidy Reserve			0	0
Syndicator Held Reserve			1,626	162,559
Rent Lag Escrow			0	0
Tax and Insurance Escrows			0	0
Other:			0	0
Other:			0	0
Subtotal			12,544	1,254,399

Miscellaneous

Deposit to Development Operating Account (1MGRP)	Required	1,026	102,563
Other (Not in Basis):		0	0
Other (In Basis):		0	0
Other (In Basis):		0	0
Subtotal		1,026	102,563

Total Acquisition Costs	55,000	5,500,000
Total Construction Hard Costs	93,750	9,375,000
Total Non-Construction ("Soft") Costs	48,767	4,876,697

Developer Overhead and Fee

Maximum	2,456,175	24,485	2,448,482
7.5% of Acquisition/Project Reserves		Override	5% Attribution Test
15% of All Other Development Costs		2,448,482	met

Total Development Cost	222,002	22,200,179
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TOTAL DEVELOPMENT SOURCES

	% of TDC		
MSHDA Permanent Mortgage	33.29%	73,908	7,390,751
Conventional/Other Mortgage	0.00%	0	0
Equity Contribution from Tax Credit Syndication	36.87%	81,852	8,185,151
MSHDA NSP Funds	0.00%	0	0
MSHDA HOME or Housing Trust Funds	1.50%	3,341	334,062
Mortgage Resource Funds	0.00%	0	0
Other MSHDA:	0.00%	0	0
Local HOME	0.00%	0	0
Income from Operations	2.01%	4,457	445,700
Other Equity	0.00%	0	0
Transferred Reserves:	0.00%	0	0
Other: Seller Note	24.77%	55,000	5,500,000
Other: LHC Sponsor Loan	1.55%	3,445	344,515
Deferred Developer Fee	0.00%	0	0
Total Permanent Sources			22,200,179

Sources Equal Uses?	Balanced
Surplus/(Gap)	0

MSHDA Construction Loan	52.00%	115,441	11,544,093
Construction Loan Rate	3.950%		
Repaid from equity prior to final closing			4,153,342

Eligible Basis for LIHTC/TCAP	Value of LIHTC/TCAP
Acquisition	5,265,000
Construction	18,534,022
Acquisition Credit %	4.00%
Rehab/New Const Credit %	4.00%
Qualified Percentage	100.00%
QCT/DDA Basis Boost	130%
Historic?	No

Initial Owner's Equity Calculation

Equity Contribution from Tax Credit Syndication	8,185,151
Brownfield Equity	
Historic Tax Credit Equity	
General Partner Capital Contributions	
Other Equity Sources	

New Owner's Equity 8,185,151

% In Basis Included in Tax Credit Basis Included in Historic TC Basis

OAR Funded	Yr 1	4 Month OAR
0%	0	0
0%	0	0
0%	0	0
0%	0	0
0%	0	0
0%	0	0
0%	0	0
0%	0	0
0%	0	0
0%	0	0
0%	0	0

0%	0	0
0%	0	0
100%	0	0
100%	0	0

LIHTC Basis	Historic Basis	221(d)(3) Limit	Aggregate Basis
19,521,940	13,327,240	21,471,190	20,031,940
		Non-elevator	

# of Units	Gap to Hard Debt Ratio	Home Subsidy Limit	HOME Unit Mix
0.00	4.52%	1,064,003	1 One Bedroom, 1 Bath, 350 Sq Ft T
5.00			1 Two Bedroom, 1 Bath, 560 Sq Ft T
			1 Three Bedroom, 1 Bath, 790 Sq Ft
			1 Bedroom, 2 Bath, 1343 Sq Ft Tow
			1 Four Bedroom, 2 Bath, 1065 Sq Ft

Deferred Dev Fee	0.00%
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Existing Reserve Analysis		
DCE Interest:	Current Owner's Reserves:	0
Insurance:	Reserves Transferred in to Project	0
Taxes:	Tax/Ins Escrows transferred to project	0
Rep. Reserve:		
ORC:		
DCE Principal:		
Other:		

Development **Hildebrandt Park Apartments**
 Financing **Tax Exempt**
 MSHDA No. **3967**
 Step **Commitment**
 Date **08/02/2021**
 Type **Preservation - LIHTC**

Mortgage Assumptions:

Debt Coverage Ratio **1.15**
 Mortgage Interest Rate **3.950%**
 Pay Rate **3.950%**
 Mortgage Term **40** years
 Income from Operations **Yes**

Instructions

Total Development Income Potential

	Per Unit	Total
Annual Rental Income	12,308	1,230,756
Annual Non-Rental Income	61	6,131
Total Project Revenue	12,369	1,236,887

Total Development Expenses

Vacancy Loss	5.00%	of annual rent potential	615	61,538
Management Fee	534	per unit per year	534	53,400
Administration			1,464	146,350
Project-paid Fuel			410	41,000
Common Electricity			230	23,000
Water and Sewer			850	85,000
Operating and Maintenance			2,655	265,500
Real Estate Taxes			150	15,000
Payment in Lieu of Taxes (PILOT)		Applied to: All Units	0	0
Insurance			930	93,000
Replacement Reserve	300	per unit per year	300	30,000
Other:			0	
Other:			0	

Initial Inflation Factor	Beginning in Year	Future Inflation Factor
2.0%	6	2.0%
1.0%	6	2.0%
Future Vacancy		
	6	3.0%
3.0%	1	3.0%
3.0%	1	3.0%
3.0%	6	3.0%
4.0%	6	3.0%
5.0%	6	5.0%
3.0%	1	3.0%
3.0%	1	3.0%
3.0%	1	3.0%
3.0%	1	3.0%

% of
Revenue

Total Expenses	65.79%	8,138	813,788	
Base Net Operating Income		4,231	423,099	Override
Part A Mortgage Payment	29.75%	3,679	367,912	
Part A Mortgage		73,908	7,390,751	
Non MSHDA Financing Mortgage Payment		0		
Non MSHDA Financing Type:		0		
Base Project Cash Flow (excludes ODR)	4.46%	552	55,187	

Development Hildebrandt Park Apartments
 Financing Tax Exempt
 MSHDA No. 3967
 Step Application
 Date 08/02/2021
 Type Preservation - LIHTC

Instructions

Income Limits for	Ingham County (Effective April 1,2021)							
	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
30% of area median	16,620	18,990	21,360	23,730	25,650	27,540	29,430	31,350
40% of area median	22,160	25,320	28,480	31,640	34,200	36,720	39,240	41,800
50% of area median	27,700	31,650	35,600	39,550	42,750	45,900	49,050	52,250
60% of area median	33,240	37,980	42,720	47,460	51,300	55,080	58,860	62,700

Rental Income

Unit	No. of Units	Unit Type	Bedrooms	Baths	Net Sq. Ft.	Contract Rent	Utilities	Total Housing Expense	Gross Rent	Current Section 8 Contract Rent	% of Gross Rent	% of Total Units	Gross Square Feet	% of Total Square Feet	TC Units Square Feet	Unit Type	Max Allowed Housing Expense	
60% Family	Area Median Income Units																	
	Occupancy																	
A	9	Townhome	1	1.0	350	667	56	723	72,036		5.9%	9.0%	3,150	4.3%	3,150		890	
B	32	Townhome	2	1.0	560	820	62	882	314,880		25.6%	32.0%	17,920	24.4%	17,920		1,068	
C	12	Townhome	3	1.0	790	1,056	76	1,132	152,064		12.4%	12.0%	9,480	12.9%	9,480		1,234	
D	4	Townhome	5	2.0	1,343	1,310	105	1,415	62,880		5.1%	4.0%	5,372	7.3%	5,372		1,424	
E	0	Townhome	4	2.0	1,065	0	76	0	0		0.0%	0.0%	0	0.0%	0		1,377	
									601,860	0	48.9%	57.0%	35,922	49.0%	35,922			
60% Yes Family	Area Median Income Units																	
	Other Project Based Voucher Units																	
	Occupancy																	
A		Townhome	1	1.0	350		56	0	0	0	0.0%	0.0%	0	0.0%	0		N/A	
B		Townhome	2	1.0	560		62	0	0	0	0.0%	0.0%	0	0.0%	0		N/A	
C	26	Townhome	3	1.0	790	1,212	76	1,288	378,144	0	30.7%	26.0%	20,540	28.0%	20,540		1,234	
D		Townhome	5	2.0	1,343		105	0	0	0	0.0%	0.0%	0	0.0%	0		N/A	
E	12	Townhome	4	2.0	1,065	1,299	76	1,375	187,056	0	15.2%	12.0%	12,780	17.4%	12,780		1,377	
									565,200	0	45.9%	38.0%	33,320	45.4%	33,320			
50% Family	Area Median Income Units																	
	Occupancy																	
A	1	Townhome	1	1.0	350	667	56	723	8,004	0	0.7%	1.0%	350	0.5%	350	Low HOME	740	
B	1	Townhome	2	1.0	560	820	62	882	9,840	0	0.8%	1.0%	560	0.8%	560	Low HOME	890	
C	1	Townhome	3	1.0	790	1,212	76	1,288	14,544	0	1.2%	1.0%	790	1.1%	790	Low HOME	1,028	
D	1	Townhome	5	2.0	1,343	1,310	105	1,415	15,720	0	1.3%	1.0%	1,343	1.8%	1,343	Low HOME	0	
E	1	Townhome	4	2.0	1,065	1,299	76	1,375	15,588	0	1.3%	1.0%	1,065	1.5%	1,065	Low HOME	1,147	
Mgrs									0	0	0.0%	0.0%	0	0.0%	0			
													73,350			73,350		
Total Revenue Units	100																	
Income Average	59.50%																	
Set Aside	100.00%																	
									Gross Rent Potential		1,230,756							
									Average Monthly Rent		1,026							
									Gross Square Footage		73,350							
											HOME Units SF/Total Units SF			5.6%	Within Range			
											# HOME Units/# Total Units			5.0%	Within Range			

Utility Allowances

		Tenant-Paid	Owner-Paid	Owner-Paid			
		Electricity	A/C	Gas	Water/Sewer	Other	Total
Annual Non-Rental Income							
Misc. and Interest							56
Laundry	6,131						62
Carports							76
Other:							105
Other:							76
	6,131						91
							0
							0

Total Income	Annual	Monthly
Rental Income	1,230,756	102,563
Non-Rental Income	6,131	511
Total Project Revenue	1,236,887	103,074

Development Hildebrandt Park Apartments
Financing Tax Exempt
MSHDA No. 3967
Step Commitment
Date 08/02/2021
Type Preservation - LIHTC

[illegible]

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
RESOLUTION DETERMINING MORTGAGE LOAN FEASIBILITY
HILDEBRANDT PARK APARTMENTS, MSHDA DEVELOPMENT NO. 3967
CITY OF LANSING, INGHAM COUNTY

August 2, 2021

WHEREAS, the Lansing Housing Commission (the "Seller") is the owner of a development for low and moderate income persons located in the City of Lansing, Ingham County, Michigan, to be known as Hildebrandt Park Apartments, MSHDA Development No. 3967 (the "housing project"); and

WHEREAS, the housing project shall receive federal project-based rental assistance under the Section 8 program; and

WHEREAS, the Lansing Housing Commission (the "Applicant") desires to purchase and rehabilitate the housing project for an estimated total development cost of Twenty-Two Million Two Hundred Thousand One Hundred Seventy-Nine Dollars (\$22,200,179); and

WHEREAS, the Applicant has filed an Application for Mortgage Loan Feasibility with the Authority for a tax-exempt mortgage loan in the maximum amount of Eleven Million Five Hundred Forty-Four Thousand Ninety-Three Dollars (\$11,544,093) (hereinafter referred to as the "Application") to finance the acquisition and rehabilitation of the housing project, as described in the attached Mortgage Loan Feasibility/Commitment Staff Report dated August 2, 2021 (the "Staff Report"); and

WHEREAS, the Michigan State Housing Development Authority (the "Authority") is authorized under the provisions of Act No. 346 of the Public Acts of 1966 of the State of Michigan, as amended (the "Act"), to make mortgage loans to qualified non-profit housing corporations, consumer housing cooperatives and limited dividend housing corporations and associations; and

WHEREAS, a housing association to be formed by the Applicant (the "Mortgagor") may become eligible to receive a Mortgage Loan from the Authority under the provisions of the Act and the Authority's General Rules; and

WHEREAS, the Acting Executive Director has forwarded to the Authority his analysis of the Application and his recommendations with respect thereto; and

WHEREAS, the Authority has considered the Application in the light of the Authority's project mortgage loan feasibility evaluation factors.

NOW, THEREFORE, Be It Resolved by the Michigan State Housing Development Authority as follows:

1. The following determinations be and they hereby are made:
 - a. The proposed housing project will provide housing for persons of low and

moderate income and will serve and improve the residential area in which Authority-financed housing is located or is planned to be located, thereby enhancing the viability of such housing.

- b. The Applicant is reasonably expected to be able to achieve successful completion of the proposed housing project.
- c. The proposed housing project will meet a social need in the area in which it is to be located.
- d. A mortgage loan, or a mortgage loan not made by the Authority that is a federally-aided mortgage, can reasonably be anticipated to be obtained to provide financing for the proposed housing project.
- e. The proposed housing project is a feasible housing project.
- f. The Authority expects to allocate to the financing of the proposed housing project proceeds of its bonds issued or to be issued for multifamily housing projects a maximum principal amount not to exceed Fourteen Million Ninety-Eight Thousand Nine Hundred Forty-Six Dollars (\$14,098,946).

2. The proposed housing project be and it is hereby determined to be feasible for a mortgage loan on the terms and conditions set forth in the Staff Report presented to the meeting, subject to any and all applicable determinations and evaluations issued or made with respect to the proposed housing project by other governmental agencies or instrumentalities or other entities concerning the effects of the proposed housing project on the environment as evaluated pursuant to the federal National Environmental Policy Act of 1969, as amended, and the regulations issued pursuant thereto as set forth in 24 CFR Part 58.

3. The determination of feasibility is based on the information obtained from the Applicant and the assumption that all factors necessary for the successful construction and operation of the proposed housing project shall not change in any materially adverse respect prior to the closing. If the information provided by the Applicant is discovered to be materially inaccurate or misleading, or any factors necessary for the successful construction and operation of the proposed project change in any materially adverse respect, this feasibility determination resolution may, at the option of the Executive Director, the Chief Housing Investment Officer, the Director of Legal Affairs, the Deputy Director of Legal Affairs, the Chief Financial Officer or any person duly authorized to act in any of the foregoing capacities (each an "Authorized Officer"), be immediately rescinded.

4. Neither this determination of feasibility nor the execution prior to closing of any documents requested to facilitate processing of a proposed mortgage loan to be used in connection therewith constitutes a promise or covenant by the Authority that it will make a Mortgage Loan to the Mortgagor.

5. This determination of Mortgage Loan Feasibility is conditioned upon the availability of financing to the Authority. The Authority does not covenant that funds are or will be available for the financing of the subject proposed housing development.

6. The Mortgage Loan Feasibility determination is subject to the conditions set forth in the Staff Report dated August 2, 2021, which conditions are hereby incorporated by reference

as if fully set forth herein.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
RESOLUTION AUTHORIZING MORTGAGE LOAN
HILDEBRANDT PARK APARTMENTS, MSHDA DEVELOPMENT NO. 3967
CITY OF LANSING, INGHAM COUNTY

August 2, 2021

WHEREAS, the Michigan State Housing Development Authority (the "Authority") is authorized, under the provisions of Act No. 346 of the Public Acts of 1966 of the State of Michigan, as amended (hereinafter referred to as the "Act"), to make mortgage loans to qualified nonprofit housing corporations, consumer housing cooperatives, limited dividend housing corporations and associations and certain qualified individuals; and

WHEREAS, an application (the "Application") has been filed with the Authority by the Lansing Housing Commission (the "Applicant") for a mortgage loan in the amount of Eleven Million Five Hundred Forty-Four Thousand Ninety-Three Dollars (\$11,544,093) (the "Mortgage Loan") for the acquisition, rehabilitation and permanent financing of a multi-family housing project having an estimated total development cost of Twenty-Two Million Two Hundred Thousand One Hundred Seventy-Nine Dollars (\$22,200,179), to be known as Hildebrandt Park Apartments (the "housing project"), located in the City of Lansing, Ingham County, Michigan, and to be owned by Hildebrandt Park Limited Dividend Housing Association Limited Partnership (the "Mortgagor"); and

WHEREAS, the Applicant has also requested a mortgage loan under the HOME Investment Partnerships Program using HOME funds in the estimated amount of Three Hundred Thirty-Four Thousand Sixty-Two Dollars (\$334,062) (the "HOME Loan"); and

WHEREAS, the Acting Executive Director has forwarded to the Authority his analysis of the Application and his recommendation with respect thereto; and

WHEREAS, the Authority has reviewed the Application and the recommendation of the Acting Executive Director and, on the basis of the Application and recommendation, has made determinations that:

- (a) The Mortgagor is an eligible applicant;
- (b) The proposed housing project will provide housing for persons of low and moderate income and will serve and improve the residential area in which Authority-financed housing is located or is planned to be located thereby enhancing the viability of such housing;
- (c) The Applicant and the Mortgagor are reasonably expected to be able to achieve successful completion of the proposed housing project;
- (d) The proposed housing project will meet a social need in the area in which it is to be located;

- (e) The proposed housing project may reasonably be expected to be marketed successfully;
- (f) All elements of the proposed housing project have been established in a manner consistent with the Authority's evaluation factors, except as otherwise provided herein;
- (g) The construction or rehabilitation will be undertaken in an economical manner and it will not be of elaborate design or materials; and
- (h) In light of the estimated total project cost of the proposed housing project, the amount of the Mortgage Loan authorized hereby is consistent with the requirements of the Act as to the maximum limitation on the ratio of mortgage loan amount to estimated total project cost.

WHEREAS, the Authority has considered the Application in the light of the criteria established for the determination of priorities pursuant to General Rule 125.145 and hereby determines that the proposed housing project is consistent therewith; and

WHEREAS, Sections 83 and 93 of the Act provide that the Authority shall determine a reasonable and proper rate of return to limited dividend housing corporations and associations on their investment in Authority-financed housing projects.

NOW, THEREFORE, Be It Resolved by the Michigan State Housing Development Authority as follows:

1. The Application be and it hereby is approved, subject to the terms and conditions of this Resolution, the Act, the General Rules of the Authority, and the Mortgage Loan commitment hereinafter authorized to be issued to the Applicant and the Mortgagor.

2. The Mortgage Loan be and it hereby is authorized and the Acting Executive Director, the Chief Housing Investment Officer, the Director of Legal Affairs, the Deputy Director of Legal Affairs, the Chief Financial Officer or any person duly authorized to act in any of the foregoing capacities, or any one of them acting alone (each an "Authorized Officer"), are hereby authorized to issue to the Applicant and the Mortgagor a commitment for a Mortgage Loan for the acquisition and rehabilitation financing of the proposed housing project in an amount not to exceed Eleven Million Five Hundred Forty-Four Thousand Ninety-Three Dollars (\$11,544,093), and permanent financing in an amount not to exceed Seven Million Three Hundred Ninety Thousand Seven Hundred Fifty-One Dollars (\$7,390,751), and to have a term of forty (40) years after amortization of principal commences. The Mortgage Loan will bear interest at a rate of three and 95/100 percent (3.95%) per annum. The amount of proceeds of tax-exempt bonds issued or to be issued and allocated to the financing of this housing project shall not exceed Fourteen Million Ninety-Eight Thousand Nine Hundred Forty-Six Dollars (\$14,098,946).

3. This mortgage loan commitment resolution and issuance of the Mortgage Loan Commitment are based on the information obtained from the Applicant and the assumption that all factors necessary for the successful construction and operation of the proposed housing project shall not change in any materially adverse respect prior to the closing. If the information provided by the Applicant is discovered to be materially inaccurate or misleading, or any factors necessary for the successful construction and operation of the proposed project change in any materially adverse respect, this mortgage loan commitment resolution together with the Mortgage

Loan Commitment issued pursuant hereto may, at the option of an Authorized Officer, be rescinded. Any Authorized Officer is hereby authorized to modify or waive any condition or provision contained in the Commitment. Any Authorized Officer is also hereby authorized to substitute alternate funding sources for or adjust the amounts of any of the subordinate loans described above, provided the total subordinate funding that is authorized herein does not increase.

4. Notwithstanding passage of this resolution or execution of any documents in anticipation of the closing of the proposed mortgage loan, no contractual rights to receive the mortgage loan authorized herein shall arise unless and until an Authorized Officer shall have issued a Mortgage Loan Commitment and the Applicant shall have agreed in writing within fifteen days after receipt thereof, to the terms and conditions contained therein.

5. The proposed housing project be and it hereby is granted a priority with respect to proceeds from the sale of Authority securities which are determined by the Executive Director to be available for financing the construction and permanent loans of the proposed housing project. Availability of funds is subject to the Authority's ability to sell bonds at a rate or rates of interest and at a sufficient length of maturity so as not to render the permanent financing of the development unfeasible.

6. In accordance with Section 93(b) of the Act, the maximum reasonable and proper rate of return on the investment of the Mortgagor in the housing project be and it hereby is determined to be as follows:

- (a) So long as the Housing Assistance Payments Contract or any other federal subsidy is in effect, the rate of return shall be twelve percent (12%) of the Mortgagor's equity, as determined by the Authority.
- (b) Following the expiration or termination of the Housing Assistance Payments Contract or other federal subsidy, the rate of return shall not exceed twenty-five percent (25%) of the Mortgagor's equity, as determined by the Authority.
- (c) The Mortgagor's return on equity shall be fully cumulative.

7. The Authority hereby waives Section II.B.2(f) of the Multifamily Direct Lending Parameters adopted on June 28, 2017 setting forth deferred payments on the HOME loan. HOME loan payments are to begin the first year after construction completion.

8. The Authority hereby waives Section III.K of Multifamily Direct Lending Parameters adopted on June 28, 2017, requiring the establishment of an Operating Deficit Reserve if a development does not have sufficient cash flow to maintain a DCR of 1.0 over the 20-year period.

9. The Mortgage Loan shall be subject to, and the Mortgage Loan Commitment shall contain, the conditions set forth in the Mortgage Loan Feasibility/Commitment Staff Report dated August 2, 2021, which conditions are hereby incorporated by reference as if fully set forth herein.



MSHDA

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

M E M O R A N D U M

TO: Authority Members

FROM: Gary Heidel, Acting Executive Director

DATE: August 2, 2021

RE: LaRoy Froh, Development No. 3968

Gary Heidel

RECOMMENDATION:

I recommend that the Michigan State Housing Development Authority (the "Authority") adopt resolutions that 1) determine Mortgage Loan Feasibility as to the following proposal, 2) authorize a tax-exempt bond mortgage loan in the amount set forth in the staff report, 3) authorize waivers of the Multifamily Direct Lending Parameters regarding repayment of HOME loan and the operating deficit reserve, and 4) authorize the Executive Director, or an Authorized Officer of the Authority, to issue the Authority's Mortgage Loan Commitment with respect to this development, subject to the terms and conditions set forth in the staff report.

PROJECT SUMMARY:

MSHDA No:	3968
Development Name:	LaRoy Froh
Development Location:	City of Lansing, Ingham County
Sponsor:	Lansing Housing Commission
Mortgagor:	LaRoy Froh Limited Dividend Housing Association Limited Partnership
Number of Units (Affordable and Market Rate):	100 affordable family units
Occupancy Rate:	92%
Total Development Cost:	\$21,939,469
TE Bond Construction Loan:	\$11,408,524
TE Bond Permanent Loan:	\$ 7,377,570
MSHDA Gap Funds:	\$ 464,596 HOME Funds
Seller's Note:	\$ 4,887,425
Deferred Developer Fee:	\$ 745,117

EXECUTIVE SUMMARY:

LaRoy Froh (the “Development”) is located on the south side of Lansing. The existing units consist of 1, 2-, 3-, 4-, and 5-bedroom units. The Development consists of 16 residential buildings and a community building. The community building contains facilities such as a community room, childcare/learning facilities, a resident services coordinator’s office, and management offices.

The project sponsor, Lansing Housing Commission (“LHC”), will serve as a managing general partner of the ownership entity. LHC brings decades of experience in providing affordable housing. LHC has identified Chesapeake Community Advisors as their development consultant. I am recommending Board approval for the following reasons:

- The Development’s affordability will be extended for up to 50 years for all units.
- All units will be refurbished to meet the physical needs of the Development.
- Financing the Development results in a new earning asset for the Authority.
- As an existing family development that will be 100% subsidized, the Development should be low risk to the Authority.

ADVANCING THE AUTHORITY’S MISSION:

- 100% of the Development’s family units will be covered by Housing Assistance Payment (“HAP”) Contracts.
- The Development needs an extensive rehabilitation to continue providing safe, efficient units for all residents.

MUNICIPAL SUPPORT:

- The Development operates with an approved 10% payment in lieu of taxes (“PILOT”). The PILOT is based on the tenant portion of the rent and not the subsidy.

COMMUNITY ENGAGEMENT/IMPACT:

The sponsor has discussed the Development with the Mayor of Lansing. The sponsor received a letter from the City of Lansing showing its support for the rehabilitation of this housing project.

The rehabilitation enabled by the financing of this Development will improve the lives of residents as well as the broader community. A new 20-year HAP contract will be approved upon closing of this transaction. The Affordability period for these units ranges from 20 to 50 years, depending on the funding source.

RESIDENT IMPACT:

- The planned rehabilitation of LaRoy Froh will not result in any tenant displacement or rent increases.

ISSUES, POLICY CONSIDERATIONS, AND RELATED ACTIONS:

The Development is a 100-unit public housing development which is owned and managed by the LHC. The sponsor is proposing a substantial rehabilitation of the existing structures and surface areas. The Development is currently fully subsidized via a United States Department

Housing and Urban Development ("HUD") Annual Contributions Contract ("ACC") subsidy, but the Development is converting to HUD's Rental Assistance Development ("RAD") program.

The owner has been notified by HUD that the Development is eligible to apply for a Contract to enter into a Housing Assistance Payment ("CHAP") for all 100 units. As part of the RAD Conversion, 40% of the units will be converted to LHC project-based vouchers which generate higher revenue for the Development. LaRoy Froh is in an Opportunity Zone and is entitled to a \$100 rent increase.

The Development requires waivers of the following Multifamily Direct Lending Parameters requirements:

- a. The establishment of an Operating Deficit Reserve if a development does not have sufficient cash flow to maintain a DCR of 1.0 over the 20-year period (Section III.K.) (due to its small size, the ODR will be combined with the Operating Assurance Reserve).
- b. Annual payments equal to 50% of cash available for distribution are required on gap loans after 12 years or the year in which the sum of all surplus cash available for distribution equals the amount of deferred developer fee(Section II.B.2(f)). . In this case, the 50% payment will begin immediately following the first year after construction completion because the development fee is over \$2.1 million. Furthermore, any cost savings and residual receipts during the construction period will be used to pay down the gap loan



MORTGAGE LOAN FEASIBILITY/COMMITMENT STAFF REPORT

August 2, 2021

RECOMMENDATION:

I recommend that the Michigan State Housing Development Authority (the "Authority") adopt resolutions that 1) determine Mortgage Loan Feasibility as to the following proposal, 2) authorize a tax-exempt bond mortgage loan in the amount set forth in this report, 3) authorize waivers of the Multifamily Direct Lending Parameters regarding repayment of HOME loan and the establishment of an operating deficit reserve, and 4) authorize the Executive Director, or an Authorized Officer of the Authority, to issue the Authority's Mortgage Loan Commitment with respect to this development, subject to the terms and conditions set forth in this report.

<u>MSHDA No.:</u>	3968
<u>Development Name:</u>	LaRoy Froh
<u>Development Location:</u>	City of Lansing, Ingham County
<u>Sponsor:</u>	Lansing Housing Commission
<u>Mortgagor:</u>	LaRoy Froh Limited Dividend Housing Association Limited Partnership
<u>TE Bond Construction Loan:</u>	\$11,408,524 (52% of TDC)
<u>TE Bond Permanent Loan:</u>	\$7,377,570
<u>MSHDA HOME Loan:</u>	\$464,596
<u>Total Development Cost:</u>	\$21,939,469
<u>Mortgage Amortization and Term:</u>	40 years for the tax-exempt bond loan; 50 years for the HOME loan.
<u>Interest Rate:</u>	3.95% for the tax-exempt bond loan; 1% simple interest for the HOME loan.
<u>Program:</u>	Tax-Exempt Bond and Gap Financing Programs
<u>Number of Units:</u>	100 family units of rehabilitation
<u>Unit Configuration:</u>	20 one-bedroom, one bath; 24 two-bedroom, one bath; 35 three-bedroom, one bath; 14 four-bedroom, two-bath; 7 five-bedroom, two-bath
<u>Builder:</u>	Oakwood Construction Company
<u>Syndicator:</u>	Cinnaire
<u>Date Application Received:</u>	August 15, 2020
<u>HDO:</u>	Karen Waite

Issuance of the Authority's Mortgage Loan Commitment is subject to fulfillment of all Authority processing and review requirements and obtaining all necessary staff approvals as required by the Authority's underwriting standards.

ISSUES, POLICY CONSIDERATIONS AND RELATED ACTIONS:

La Roy Froh (the “Development”) is a 100-unit public housing development which is owned and managed by the LHC. The sponsor is proposing a substantial rehabilitation of the existing structures and surface areas. The Development is currently fully subsidized via a United States Department Housing and Urban Development (“HUD”) Annual Contributions Contract (“ACC”) subsidy, but the Development is converting to HUD’s Rental Assistance Demonstration (“RAD”) program.

The owner has been notified by HUD that the Development is eligible to apply for a Contract to enter into a Housing Assistance Payment (“CHAP”) for all 100 units. As part of the RAD Conversion, 40% of the units will be converted to LHC project-based vouchers which generate higher revenue for the Development. LaRoy Froh is in an Opportunity Zone and is entitled to a \$100 rent increase.

The Development requires waivers of the following Direct Lending Parameters:

- a. The establishment of an Operating Deficit Reserve if a development does not have sufficient cash flow to maintain a DCR of 1.0 over the 20-year period (Section III.K.) (due to its small size, the ODR will be combined with the Operating Assurance Reserve); and
- b. Annual payments equal to 50% of cash available for distribution are required on gap loans after 12 years or the year in which the sum of all surplus cash available for distribution equals the amount of deferred developer fee (Section II.B.2). In this case, the 50% payment will begin immediately following the first year after construction completion because the development fee is over \$2.1 million; furthermore, any cost savings and residual receipts during the construction period will be used to pay down the gap loan.

EXECUTIVE SUMMARY:

The Development is located on the south side of Lansing. The existing units consist of 1, 2-, 3-, 4-, and 5-bedroom units. The Development consists of 16 residential buildings and a community building. The community building contains facilities such as a community room, childcare/learning facilities, a resident services coordinator’s office, and management offices.

The project sponsor, LHC, will serve as a managing general partner of the ownership entity. LHC brings decades of experience in providing affordable housing. LHC has identified Chesapeake Community Advisors as their development consultant.

Structure of the Transaction and Funding:

There are several elements to this transaction that are common to preservation transactions:

- A tax-exempt bond construction loan will be provided by the Authority in the amount of \$11,408,524 at 3.95% interest with an 18-month term (a 12-month construction term and a 6-month holding period), which will be used to bridge an extended equity pay-in period. Payments of interest only will be required during the construction loan. The principal balance of the construction loan will be reduced to the permanent loan amount due on the first day of the month following the month in which the 18-month construction loan term

expires or such later date as established by an Authorized Officer of the Authority (the "Permanent Financing Date").

- A permanent Mortgage Loan will be provided by the Authority in the amount of \$7,377,570. The permanent loan amount is based upon the current rents, less vacancy loss, payments to reserves and escrows, operating costs based on historical data unless modified by project improvements and construction and soft costs at levels appropriate for this specific transaction. The permanent loan is based on a 1.15 debt service coverage ratio, an annual interest rate of 3.95%, with a fully amortizing term of 40 years commencing on the Permanent Financing Date. The permanent Mortgage Loan will begin to amortize on the Permanent Financing Date and will be in **First Position**.
- A permanent subordinate loan using HOME funds (the "HOME Loan") in the amount of \$464,596 will be provided at 1% simple interest with payments initially deferred. The HOME Loan will be in **Second Position**.
- The Seller is providing Seller's Note in the amount of \$4,887,425. See Special Condition No. 3.
- Equity support comes from an investment related to the 4% LIHTC in the estimate amount of \$7,973,554.
- Income from operations will be used as a source of funding to make the interest only payments and the tax and insurance payments during the construction period in the amount of \$491,207.
- A HUD RAD conversion will provide 100 project-based vouchers.
- The Sponsor has agreed to defer \$745,117 of the developer fee to help fill the remaining funding gap.
- An amount equal to one month's gross rent potential will be funded in the Development's operating account.
- An operating assurance reserve ("OAR") will be required in the amount identified in the attached proforma. The reserve will be capitalized at closing in an amount which, along with accumulated interest, is expected to meet the Development's unanticipated operating needs. This reserve will be held by the Authority.
- A Syndicator Reserve in the amount of \$170,267 is required by the equity investor for additional operational needs. The reserve will be held by the Syndicator. See Special Condition No. 2.
- Due to its small size, the operating deficit reserve ("ODR") has been combined with the OAR and the condition for a separate ODR has been intentionally omitted.
- The Development will be renovated, and a new replacement reserve requirement imposed, based upon a capital needs assessment ("CNA"), to ensure an extension of the useful life of the property and to maintain an excellent quality of life for the residents. At the closing, the Mortgagor must deposit the amount determined necessary to satisfy the requirements of the Authority-approved CNA over a 20-year period. This reserve will be held by the Authority.

Scope of Rehabilitation:

The following improvements to the property are included in the Scope of Work:

- Parking lots and drives to be milled and resurfaced or replaced

- Stripe lot and install new parking sign.
- Provide new masonry dumpster enclosures with gates (six total).
- Repair or replace all damaged concrete walks, curbs, and ramps.
- Remove bollards, lights, benches & brick pavers, create new low-maintenance green landscape zones with crosswalks, design to eliminate vehicular traffic.
- Provide new monument signage at east end of property and at entrance.
- Adding two full baths to the 4- and 5-bedroom units
- Provide a new bus stop pad at existing bus stop location adjacent to the main entry.
- Provide on-site security cameras throughout the site.
- Renovate existing offices, corridors, and kitchenette space in community building.
- Provide police office space with a security camera connection.
- Remove existing shutters and siding materials and beneath windows on the first floor.
- Remove and replace roofing with new dimensional shingles.
- Remove and replace front exterior doors on all dwelling units with thermally insulated doors.
- Remove and replace all dwelling windows with new, horizontal sliding windows.
- Remove and replace existing fascia, gutters, and downspouts on all buildings.
- Remove and replace all gypsum board on walls and ceilings, and insulation, and wiring.
- Remove and replace kitchen cabinets, countertops, backsplash, appliances, sinks and disposals.
- Remove and replace bathroom plumbing fixtures, and wall and ceiling finishes.
- Sand and refinish all existing wood floors throughout units.
- Remove and replace existing HVAC equipment and ductwork.
- Install new water heaters in all units.
- Install new 90% efficiency gas furnaces with air conditioning in units.
- Remove and replace existing electrical panel, wiring, boxes, etc., in units.
- Remove and replace all electrical fixtures with LED fixtures in units.

Affordability Requirements:

The Authority's tax-exempt bond regulatory agreement will require that all of the dwelling units in the property remain occupied by households with incomes at or below 60% of the Multifamily Tax Subsidy Project ("MTSP") income limit, adjusted for family size. The number of restricted units is controlled by the number of eligible households in place at closing, estimated to be 100% of the units. Units will be further restricted to the income limits required by the HAP Contract.

Protections for Existing Residents:

The preservation and renovation of the Development will not result in a rent increase for the existing tenants. There will be no tenant displacement as a result of this transaction.

Site Selection:

The site has been vetted by Authority Staff and the Authority's Manager of the office of Market Research has indicated that the site meets the Authorities current site selection criteria.

Market Evaluation:

The unit mix as well as the amenities package and rent levels have been approved by the Manager of the office of Market Research.

Valuation of the Property:

An appraisal dated May 19, 2020, estimates the value at \$5,270,000.

CONDITIONS:

At or prior to (i) issuance of the Authority's mortgage loan commitment ("Mortgage Loan Commitment"), (ii) the initial Mortgage Loan Closing (the "Initial Closing"), or (iii) such other date as may be specified herein, the new Mortgagor and other members of the Development team, where appropriate, must satisfy each of the following conditions by entering into a written agreement or providing documentation acceptable to the Authority:

Standard Conditions:

1. Limitation for Return on Equity:

For each year of the Development's operation, beginning in the year in which the Mortgage Cut-Off Date occurs, payments are limited to twelve percent (12%) of the Mortgagor's equity. For purposes of distributions, the Mortgagor's equity will be the sum of (i) the LIHTC equity; (ii) the brownfield tax credit equity; (iii) the historic tax credit equity; (iv) general partner capital contributions; and (v) any interest earned on an equity escrow held by the Authority (estimated to be a total of \$7,973,554). All such payments shall be referred to as "Limited Dividend Payments". The Mortgagor's return shall be fully cumulative. The Mortgagor's return shall be fully cumulative. Limited Dividend Payments shall be capped at 12% per annum, until the HAP Contract has terminated or expired. Thereafter, Limited Dividend Payments shall not exceed 25% per annum.

2. Income Limits:

The income limitations for 100 units of this proposal are as follows:

- a. 5 units have been designated as Low-HOME units and during the Period of Affordability required under the HOME program (15 years) must be available for occupancy by households whose incomes do not exceed the Low HOME income limit as published by HUD, adjusted for family size.
- b. 100 units (20 one-bedroom units, 24 two-bedroom units, 35 three-bedroom units, 14 Four-bedroom units, and 7 five-bedroom units) must be occupied or available for occupancy by households whose incomes do not exceed the income limits in the HAP Contract for so long as the HAP Contract between the Mortgagor and the Authority is in effect (including extensions and renewals), or for such longer period as determined by HUD.

To the extent units within the Development are subject to multiple sets of income limits, the most restrictive income limit will apply so long as the applicable term of affordability continues.

The income of individuals and area median income shall be determined by the Secretary of the Treasury in a manner consistent with determinations of lower income families and area median income under Section 8 of the U.S. Housing Act of 1937, including adjustments for family size.

3. Limitations on Rental Rates:

The Total Housing Expense (contract rent plus tenant-paid utilities) for 100 units is subject to the following limitations:

- a. During the Period of Affordability required under the HOME program (50 years), the Total Housing Expense for the 5 Low-HOME units may not exceed the "Low-HOME Rent Limit" for the unit established and published annually by HUD.

- b. So long as the HAP Contract remains in effect, the Mortgagor agrees to establish and maintain rents for all HAP-assisted units (20 one-bedroom units, 24 two- bedroom units, 35 three-bedroom units, 14 Four-bedroom units, and 7 five- bedroom units) ("Contract Rents") that comply with the rent levels established by the HAP Contract and that do not exceed the rent levels approved by HUD.
- c. The Total Housing Expense for all 100 units (20 one-bedroom units, 24 two-bedroom units, 35 three-bedroom units, 14 four-bedroom units, 7 five-bedroom units) may not exceed one-twelfth (1/12th) of 30% of 60% of the MTSP limit, adjusted for family size and based upon an imputed occupancy of one and one-half persons per bedroom. This restriction will apply until the latest of (i) the end of the Extended Use Period, (ii) 50 years after Initial Closing; or (iii) so long as any Authority loan remains outstanding.

To the extent units within the Development are subject to multiple sets of rent limits, the most restrictive rent limit will apply so long as the applicable term of affordability continues.

For the initial lease term of the first household occupying each rent restricted unit in the Development the initial rent may not exceed 105% of the rent approved in this Mortgage Loan Feasibility/Commitment Staff Report. Rental increases on occupied units during any 12-month period will be limited to not more than 5% of the rent paid by the resident household at the beginning of that annual period. Exceptions to this limitation may be granted by MSHDA's Director of Asset Management for extraordinary increases in project operating expenses (exclusive of limited dividend payments) or mortgage loan increases to fund cost overruns pursuant to the Authority's policy on Mortgage Loan increases. Rents on vacated units may be increased to the maximum level permissible by the applicable programs. Rents and utility allowances must be approved annually by the Authority's Division of Asset Management.

Exceptions to the foregoing limitations may be granted by the Authority's Director of Asset Management to pay for extraordinary increases in operating expenses (exclusive of Limited Dividend Payments) or to enable the owner to amortize a Mortgage Loan increase to fund cost overruns pursuant to the Authority's policy on Mortgage Loan increases.

4. Covenant Running with the Land:

The Mortgagor must subject the Development site to a covenant running with the land, so as to preserve the tax-exempt status of the obligations issued or to be issued to finance the Mortgage Loan. This covenant will provide that each unit must be rented or available for rental on a continuous basis to members of the general public for a period ending on the latest of the date which is 15 years after the date on which 50% of the residential units in the Development are occupied, the first day on which no bonds are outstanding with respect to the project, or the date on which assistance provided to the project under Section 8 of the U.S. Housing Act of 1937 terminates. The income of individuals and area median income shall be determined by the Secretary of the Treasury in a manner consistent with determinations of lower income families and area median income under Section 8 of the U.S. Housing Act of 1937, including adjustments for family size. Until the Secretary of the Treasury publishes its requirements, income of the individuals shall be determined in accordance with Section 8 regulations. Additionally, if LIHTC is awarded to the Development, the Mortgagor must agree to subject the property to the extended low-income use commitment required by Section 42 of the Internal Revenue Code.

5. Restriction on Prepayment and Subsequent Use:

The Mortgage Loan is eligible for prepayment after the expiration of fifteen (15) years after the commencement of amortization. The Mortgagor must provide the Authority with at least 60 days' written notice prior to any such prepayment.

In the event of a prepayment, however, the Mortgagor must pay a prepayment fee equal to the sum of:

- a. 1% of the balance being prepaid;
- b. Any bond call premium, prepayment or swap penalty, or any other cost that the Authority incurs to prepay the bonds or notes that were used to fund the Mortgage Loan; and
- c. Any loss of debt service spread between the Mortgage Loan and the bonds used to finance the loan from the date of the prepayment through the end of the 20th year of amortization.

Once the Mortgagor has been approved for the early prepayment of the underlying loan, it must sign an agreement with the Authority stating it is responsible for the cost of terminating the swap. The Mortgagor can then choose the timing of the termination and participate in the transaction with the swap counterparty. The swap counterparty will quote the cost of terminating the swap and the Mortgagor will have the ability to execute the transaction or cancel at its sole discretion. If the Mortgagor chooses not to terminate the swap, it will forfeit the right to prepay the Mortgage Loan.

6. Operating Assurance Reserve:

At Initial Closing, the Mortgagor shall fund an operating assurance reserve ("OAR") in the amount equal to 4 months of estimated Development operating expenses (estimated to be \$404,283) plus \$1,540 to fund the projected operating deficits. The OAR will be used to fund operating shortfalls incurred at the Development and will be disbursed by the Authority in accordance with the Authority's written policy on the use of the Operating Assurance Reserve, as amended from time to time. The OAR must be either (i) fully funded with cash, or (ii) funded with a combination of cash and an irrevocable, unconditional letter of credit acceptable to the Authority, in an amount that may not exceed 50% of the OAR requirement. To the extent that any portion of the OAR is drawn for use prior to the final closing of the Mortgage Loan, the Mortgagor must restore the OAR to its original balance at final closing.

7. Replacement Reserve:

At Initial Closing, the Mortgagor must establish a replacement reserve fund ("Replacement Reserve") with an initial deposit in an amount of \$7,611 per unit. The Mortgagor must agree to make annual deposits to the Replacement Reserve, beginning on the Mortgage Cut-Off Date, at a minimum of \$300 per unit for the first year of operation, payable in monthly installments, with deposits in subsequent years to be the greater of (i) the prior year's deposit, increased by 3%, or (ii) a percentage of the Development's projected annual rental income or gross rent potential ("GRP") for the year using the percentage obtained by dividing the first year's deposit by the first year's GRP shown on the operating proforma for the Development attached hereto. The annual deposit to the Replacement Reserve may also be increased to any higher amount that is determined to be necessary by the Authority, based on a CNA and the Authority's Replacement Reserve policies. The Authority may update any CNA or obtain a new CNA every five years, or upon any frequency, as determined necessary by the Authority.

8. One Month's Gross Rent Potential:

At Initial Closing, the Mortgagor shall deposit an amount equal to one month's gross rent potential (\$104,689) into the Development's operating account.

9. Subordinate Loan(s):

At Initial Closing, the Mortgagor must enter into agreements relating to the HOME Loan. The HOME Loan will be secured by a subordinate mortgage and will bear simple interest at 1% with a 50-year term. Following the first year after construction completion, repayment of the HOME Loan will be made from fifty percent (50%) of any surplus cash available for distribution. Such payments shall be applied first to accrued interest, then to current interest and principal. Payments shall continue until the sale of the Development or refinancing of the Mortgage Loan, at which time the HOME Loan shall be due in full. If the HOME Loan is still outstanding, then following repayment of the Mortgage Loan and continuing on the first day of every month thereafter, the Mortgagor shall make monthly payments of principal and interest equal to the monthly payments that were required on the Mortgage Loan on the first day of every month until the HOME Loan is paid in full, sale of the Development or the date that is 50 years from date of Initial Closing, whichever occurs first.

10. Architectural Plans and Specifications; Contractor's Qualification Statement:

Prior to Mortgage Loan Commitment, the architect must submit architectural drawings and specifications that address all design review comments, acceptable to the Authority's Chief Architect and the Director of Development.

Prior to Mortgage Loan Commitment, the general contractor must submit AIA Document A305 as required by the Authority's Chief Architect.

11. Owner/Architect Agreement:

Prior to Mortgage Loan Commitment, the Mortgagor must provide the Authority with an executed Owner Architect Agreement acceptable in form and substance to the Director of Legal Affairs.

12. Trade Payment Breakdown:

Prior to Mortgage Loan Commitment, the general contractor must submit a signed Trade Payment Breakdown acceptable to the Authority's Design and Construction Manager.

13. Section 3 Requirements:

Prior to Mortgage Loan Commitment, the general contractor must agree to comply with all federal Section 3 hiring requirements. The general contractor must provide a copy of the contractor's "Section 3 Hiring Plan" which must be reviewed and found acceptable to the Authority's Section 3 Compliance Officer. In addition, the general contractor must agree to adhere to follow-up reporting requirements as established by the Authority.

14. Equal Opportunity and Fair Housing:

Prior to Mortgage Loan Commitment, the management and marketing agent's Affirmative Fair Housing Marketing Plan must be reviewed and found acceptable to the Authority's Equal Employment Officer for Fair Housing Requirements.

In addition, prior to Mortgage Loan Commitment, the general contractor's Equal Employment Opportunity Plan must be reviewed and found acceptable to the Authority's Equal Employment Officer.

15. Davis-Bacon and Cross-cutting Federal Requirements:

The general contractor will be required to comply with all federal prevailing wage requirements, the requirements of the Davis-Bacon and Related Acts, and other applicable federal regulations as required under the terms of the RAD program.

16. Cost Certification:

The contractor's cost certification must be submitted within 90 days following the completion of construction, and the Mortgagor's cost certification must be submitted within 90 days following the Mortgage Cut-off Date. For LIHTC, the owner is obligated to submit cost certifications applicable to itself and the contractor prior to issuance of IRS form 8609 (see LIHTC Program Cost Certification Guidelines).

17. Environmental Review and Indemnification:

Prior to Mortgage Loan Commitment, the Mortgagor must address any outstanding environmental issues, in form and substance acceptable to the Authority's Environmental Review Officer.

At Initial Closing, the Mortgagor must enter an agreement to indemnify the Authority for any loss, damage, liability, claim, or expense which it incurs as a result of any violation of environmental laws. The indemnification agreement must be acceptable to the Director of Legal Affairs.

18. Title Insurance Commitment and Survey:

Prior to Mortgage Loan Commitment, the Mortgagor must provide an updated title insurance commitment, including zoning, pending disbursement, comprehensive, survey and such other endorsements as deemed necessary by the Authority's Director of Legal Affairs. The updated title commitment must contain only exceptions to the insurance acceptable to the Authority's Director of Legal Affairs.

Additionally, prior to Mortgage Loan Commitment, the Mortgagor must provide a surveyor's certificate of facts together with an ALTA survey certified to the 2021 minimum standards, and that appropriately reflects all easements, rights of way, and other issues noted on the title insurance commitment. All documents must be acceptable to the Director of Legal Affairs.

19. Organizational Documents/Equity Pay-In Schedule:

Prior to Mortgage Loan Commitment, the Mortgagor must submit a substantially final form syndication partnership agreement, including an equity pay-in schedule, that is acceptable in form and substance to the Director of Development and Director of Legal Affairs.

At or prior to Initial Closing, the final, executed syndication partnership agreement must become effective and the initial installment of equity must be paid in an amount approved by the Director of Development.

20. Designation of Authority Funds:

The Authority reserves the express right, in its sole discretion, to substitute alternate subordinate funding sources.

21. Management & Marketing:

Prior to Mortgage Loan Commitment, the management and marketing agent must submit the following documents, which must be found acceptable to the Director of Asset Management:

- a. Management Agreement
- b. Marketing/Construction Transition Plan

22. Guaranties:

At Initial Closing, the Sponsor, General Partner, and any entity receiving a developer fee in connection with the Development must deliver certain guaranties. The required guaranties include a guaranty of HOME recapture liability, an operating deficit guaranty and a performance completion guaranty. The required guaranties, the terms thereof and the parties who shall be required to deliver the guaranty must be determined and approved by the Authority's Director of Development.

23. Financial Statements:

Prior to Mortgage Loan Commitment, financial statements for the Sponsor, the guarantor(s) and the general contractor must be reviewed and found acceptable by the Authority's Chief Financial Officer.

If prior to Initial Closing the financial statements that were approved by the Authority become more than six months old, the Sponsor, the guarantor(s) and/or the general contractor must provide the Authority with updated financial statements meeting Authority requirements upon request.

24. Future Contributions:

To ensure the Authority is contributing the least amount of funding necessary to achieve project feasibility, any decrease in Development costs or future contributions not included in the Development proforma may, at the Authority's discretion, be utilized to reduce, in equal proportions, any deferred developer fee and Authority soft funds.

25. Ownership of Development Reserves:

At the Initial Closing, the Mortgagor must enter into an agreement confirming the Authority's ultimate ownership of excess cash reserves, escrows and accounts as may exist at the time the Authority's mortgage loans are paid off or the Development is sold or refinanced. This agreement must be acceptable to the Authority's Director of Legal Affairs.

26. Section 8 Required Approvals - HUD and MSHDA:

This transaction is subject to certain HUD approvals including, but not limited to 1) assignment of the HAP Contract and 2) previous participation approval (HUD Form 2530) for the Mortgagor, its partners, and property management agent. Prior to the Initial Closing, the HUD approvals must be obtained and must be consistent with the loan structure and intent of the transaction as described in this report. The approvals by HUD are subject to review and concurrence by the Authority's Director of Legal Affairs. The Mortgagor must enter into all agreements as may be required by HUD and to abide by all terms, conditions, and requirements of the Section 8 Program and all other Authority rules, guidelines, and procedures as required under the Regulatory Agreement.

27. HAP Extension:

At Initial Closing, the Mortgagor must enter into an agreement to apply for and accept any HAP or other HUD subsidy extensions available in the future, subject to Authority approval.

28. HUD Authority to Use Grant Funds:

Prior to Mortgage Loan Commitment, the Authority must receive HUD's Authority to Use Grant Funds (HUD 7015.16) in connection with the proposed HOME Loan from the Authority or confirmation that the Development is categorically excluded from NEPA review.

29. HUD Subsidy Layering Review:

Prior to Initial Closing, the subsidy layering review must be performed by Authority staff and must be submitted to HUD for approval. The subsidy layering approval is subject to review and approval by the Authority's Director of Development.

30. Application for Disbursement:

Prior to Initial Closing, the Mortgagor must submit an "Application for Disbursement" along with supporting documentation, which must be found acceptable to the Authority's Director of Development.

31. Uniform Relocation Act Compliance:

If the Development is occupied at Initial Closing and any occupants of the Development will be displaced and/or relocated as a result of the rehabilitation of the Development, then the Mortgagor and/or the Sponsor shall ensure compliance with all requirements of the Uniform Relocation Act and implementing regulations as set forth in 24 CFR Part 42 and 49 CFR Part 24, as well as 24 CFR §570.606. Such compliance shall be at the Mortgagor's or Sponsor's sole cost and expense. Prior to Final Closing, the Mortgagor must submit documentation that it has complied with all requirements of the Uniform Relocation Act. This documentation must be found acceptable by the Authority's Director of Development.

Special Conditions:

1. Legal Requirements:

The Mortgagor and/or Sponsor must submit documentation acceptable to the Authority's Director of Legal Affairs for the items listed below:

- Prior to Initial Closing, the Michigan Attorney General's Office must complete its review of the transaction and provide the Director of Legal Affairs its recommendation.
- Any other documentation as required by the Director of Legal Affairs, including acceptable evidence of insurance, permits, licenses, zoning approvals, utility availability, payment and performance bonds and other closing requirements.

2. Syndicator Reserve:

The Mortgagor shall fund a syndicator held reserve ("Syndicator Reserve") with a one-time deposit in the amount of \$170,267 paid from equity proceeds according to the terms of the Mortgagor's limited partnership agreement. The Syndicator Reserve shall be controlled by the syndicator. The purpose of this reserve will be to fund additional operational needs.

3. Seller's Note:

Prior to Mortgage Loan Commitment, the Mortgagor must submit substantially final documents evidencing the Sponsor loan acceptable to the Authority's Director of Legal Affairs and Director of Development. The Sponsor loan must:

- a) not be secured by a lien on the Development or any of the Development's

- property, funds or assets of any kind;
- b) be payable solely from approved Limited Dividend payments, and not from other development funds;
- c) be expressly subordinate to all Authority mortgage loans; and
- d) have a loan term not less than the longest term of all Authority mortgage loans.

At or prior to Initial Closing, the final, executed Sponsor loan documents must become effective and initial funding of the loan must be made in an amount approved by the Director of Development.

4. Residual receipts and cost savings at the end of the construction period:

Any cost savings and residual receipts identified in any post-construction cost certification or audit that would otherwise be used to pay down deferred developer fee will be applied to the HOME Loan interest and then principal if available.

DEVELOPMENT TEAM AND SITE INFORMATION

I. **MORTGAGOR:** LaRoy Froh Limited Dividend Housing Association
Limited Partnership

II. **GUARANTOR(S):**

A. **Guarantor #1:**

Name: Lansing Housing Commission
Address: 419 Cherry Street
Lansing, MI, 48933

III. **DEVELOPMENT TEAM ANALYSIS:**

A. **Sponsor:**

Name: Lansing Housing Commission
Address: 419 Cherry Street
Lansing, MI 48933

Individuals Assigned: Doug Fleming
Telephone: 517-478-6550
E-mail: dfleming@lanshc.org

1. **Experience:** The Sponsor has experience working on Authority-financed developments.

2. **Interest in the Mortgagor and Members:** LaRoy Froh GP LLC (.01%),
Lansing Housing Commission (99.99% LP).

B. **Architect:**

Name: Fusco, Shaffert & Pappas, Inc.

Mortgage Feasibility/Commitment Staff Report
LaRoy Froh, MSHDA No. 3968
City of Lansing, Ingham County
August 2, 2021

Address: 550 E. Nine Mile Road
Ferndale, MI 48220

Individual Assigned: James Pappas
Telephone: 248-543-4100
E-Mail: jpappas@fpsarch.com

1. **Experience:** Architect has previous experience with Authority-financed developments.

2. **Architect's License:** License 1301029064, exp. 04/01/2023.

C. Attorney:

Name: Mallory, Lapka, Scott & Selin, PLLC
Address: 605 S Capitol Avenue
Lansing, MI 48933

Individual Assigned: Thomas Lapka
Telephone: 517-482-0222
E-Mail: toml@mclpc.com

1. **Experience:** This firm has experience in closing Authority-financed developments.

D. Builder:

Name: Oakwood Construction Company
Address: 2380 Science Parkway, Suite #101
Okemos, MI 4884

Individual Assigned: Craig Moulton
Telephone: 517-3471980
E-mail: crgmtn9@gmail.com

1. **Experience:** The firm has previous experience in constructing Authority-financed developments.

2. **State Licensing Board Registration:** License number 2101100825, with an expiration date of 05/31/2023.

E. Management and Marketing Agent:

Name: Michigan Asset Group
Address: 1161 E. Clark Road
Suite 236
Plainwell, MI 4820

Individual Assigned: Evert Kramer
Telephone: 517-668-6447

E-mail: evert@miasset.com

1. **Experience:** This firm has significant experience managing Authority-financed developments.

F. Development Team Recommendation: GO

IV. SITE DATA:

- A. Land Control/Purchase Price:**
A signed purchase agreement with a purchase price of \$5,250,000 has been executed.
- B. Site Location:**
2400 Reo Road, Lansing, MI 48911
- C. Size of Site:**
9.44 Land Acres
- D. Density:**
Appropriate
- E. Physical Description:**
 1. **Present Use:** Multifamily Housing
 2. **Existing Structures:** 16 residential buildings, office building.
 3. **Relocation Requirements:** None.
- F. Zoning:**
Multifamily residential
- G. Contiguous Land Use:**
 1. North: Risdale Park
 2. South: Commercial; Single-family residential
 3. East: Single-family residential
 4. West: Single-family residential
- H. Tax Information:**
The development has a special 10% Payment in Lieu of Taxes ("PILOT") approved by City of Lansing. Billing is based on actual tenant portion of rent payment, less utility costs (not the Contract Rent Amount).
- I. Utilities:**
Electricity – Lansing Board of Water and Light
Gas – Consumer's Energy
Water/Sewer – Lansing Board of Water and Light

J. Community Facilities:

1. Shopping:

There is a Meijer located 2.6 miles from the project. The Lansing Mall is 4.5 miles from the project.

2. Recreation:

Hawk Island Park is 2.8 miles from the project.

3. Public Transportation:

Capital Area Transit Authority offers bus service to the residents in Lansing.

4. Road Systems

The site is 1 mile from I-96, which runs east to Detroit and west to Grand Rapids.

5. Medical Services and other Nearby Amenities:

McClaren Hospital and Sparrow Hospital are located within 4 miles of the project.

6. Description of Surrounding Neighborhood:

The surrounding neighborhood is mostly single-family homes with a few commercial buildings. Risdale Park is directly north of the site.

7. Local Community Expenditures Apparent:

The Sponsor submitted a letter prepared by the Mayor of Lansing. The Mayor expressed his strong support for the rehabilitation of this project.

8. Indication of Local Support:

A 10% PILOT has been approved.

V. ENVIRONMENTAL FACTORS:

A Phase I Environmental Site Assessment was submitted to the Authority and has been reviewed by the Authority's Environmental Manager. (See Standard Condition No. 17).

VI. DESIGN AND COSTING STATUS:

Architectural plans and specifications consistent with the scope of work have been reviewed by the Chief Architect. A response to all design review comments and the submission of corrected and final plans and specifications must be made prior to initial closing.

This proposal will satisfy the State of Michigan barrier-free requirements, the Authority's policy regarding accessibility and non-discrimination for the disabled, the Fair Housing Amendments Act of 1988, and the HOME requirements for barrier-free vision and hearing designed units. Construction documents must be acceptable to the Authority's Chief Architect.

VII. MARKET SUMMARY:

The Market study has been reviewed by the Authority's Chief Market Analyst and found to be acceptable. The Authority's Chief Market Analyst has reviewed and approved the unit mix, rental structure, and unit amenities.

VIII. FAIR HOUSING:

The management and marketing agent's Affirmative Fair Housing Marketing Plan must be submitted and reviewed.

IX. MANAGEMENT AND MARKETING:

The management/marketing agent has submitted application-level management and marketing information, to be approved prior to initial closing by the Authority's Director of Asset Management.

X. FINANCIAL STATEMENTS:

The sponsor's/guarantor's and the builder's financial statements have been submitted and are to be approved prior to initial closing by the Authority's Director of Rental Development.

XI. DEVELOPMENT SCHEDULING:

A. Mortgage Loan Commitment:	August 2021
B. Initial Closing and Disbursement:	October 2021
C. Construction Completion:	September 2022
D. Cut-Off Date:	March 2023

XII. ATTACHMENTS:

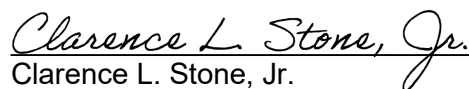
- A. Development Proforma**

APPROVALS:



Chad Benson
Director of Development

Date



Clarence L. Stone, Jr.
Director of Legal Affairs

Date



Gary Heidel
Acting Executive Director

Date

Instructions

DCE Interest:	0	Current Owner's Reserves:	0
Insurance:	0	Reserves Transferred in to Project	0
Taxes:	0	Tax/Ins Escrows transferred to project	0
Rep. Reserve	0		
ORC:	0		
DCE Principa	0		
Other:	0		

Development **LaRoy Froh**
 Financing **Tax Exempt**
 MSHDA No. **3968**
 Step **Commitment**
 Date **08/02/2021**
 Type **Preservation - LIHTC**

Mortgage Assumptions:

Debt Coverage Ratio **1.15**
 Mortgage Interest Rate **3.950%**
 Pay Rate **3.950%**
 Mortgage Term **40** years
 Income from Operations **Yes**

Instructions

Total Development Income Potential

	Per Unit	Total
Annual Rental Income	12,563	1,256,268
Annual Non-Rental Income	70	7,049
Total Project Revenue	12,633	1,263,317

Total Development Expenses

Vacancy Loss	5.00% of annual rent potential	628	62,813
Management Fee	534 per unit per year	534	53,400
Administration		1,354	135,350
Project-paid Fuel		470	47,000
Common Electricity		400	40,000
Water and Sewer		690	69,000
Operating and Maintenance		2,745	274,500
Real Estate Taxes		100	10,000
Payment in Lieu of Taxes (PILOT)	0.00% Applied to: All Units	0	0
Insurance		1,189	118,909
Replacement Reserve	300 per unit per year	300	30,000
Other:		0	
Other:		0	

Initial Inflation Factor	Beginning in Year	Future Inflation Factor
2.0%	6	2.0%
1.0%	6	2.0%
Future Vacancy		
	6	3.0%
3.0%	1	3.0%
3.0%	1	3.0%
3.0%	6	3.0%
4.0%	6	3.0%
5.0%	6	5.0%
3.0%	1	3.0%
3.0%	1	3.0%
3.0%	1	3.0%
3.0%	1	3.0%

% of
Revenue

Total Expenses	66.57%	8,410	840,972	
Base Net Operating Income		4,223	422,345	Override
Part A Mortgage Payment	29.07%	3,673	367,256	
Part A Mortgage		73,776	7,377,570	
Non MSHDA Financing Mortgage Payment		0		
Non MSHDA Financing Type:		0		
Base Project Cash Flow (excludes ODR)	4.36%	551	55,088	

Development LaRoy Froh
 Financing Tax Exempt
 MSHDA No. 3968
 Step Commitment
 Date 08/02/2021
 Type Preservation - LIHTC

Instructions

Income Limits for	Ingham County (Effective April 1,2021)							
	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
30% of area median	16,620	18,990	21,360	23,730	25,650	27,540	29,430	31,350
40% of area median	22,160	25,320	28,480	31,640	34,200	36,720	39,240	41,800
50% of area median	27,700	31,650	35,600	39,550	42,750	45,900	49,050	52,250
60% of area median	33,240	37,980	42,720	47,460	51,300	55,080	58,860	62,700

Rental Income

Unit	No. of Units	Unit Type	Bedrooms	Baths	Net Sq. Ft.	Contract Rent	Utilities	Total Housing Expense	Gross Rent	Current Section 8 Contract Rent	% of Gross Rent	% of Total Units	Gross Square Feet	% of Total Square Feet	TC Units Square Feet	Unit Type	Max Allowed Housing Expense
60% Family	Area Median Income Units Occupancy																
A	19	Townhome	1	1.0	350	732	56	788	166,896		13.3%	19.0%	6,650	9.2%	6,650		890
B	23	Townhome	2	1.0	560	877	62	939	242,052		19.3%	23.0%	12,880	17.8%	12,880		1,068
C	9	Townhome	3	1.0	790	1,101	76	1,177	118,908		9.5%	9.0%	7,110	9.8%	7,110		1,234
D	6	Townhome	5	2.0	1,343	1,342	105	1,447	96,624		7.7%	6.0%	8,058	11.1%	8,058		1,424
E	0	Townhome	4	2.0	1,065	1,299	76	1,375	0		0.0%	0.0%	0	0.0%	0		1,377
									624,480	0	49.7%	57.0%	34,698	47.9%	34,698		
60% Family	Area Median Income Units Occupancy																
A	0	Townhome	1	1.0	350	0	56	0	0	0	0.0%	0.0%	0	0.0%	0		890
B	0	Townhome	2	1.0	560	0	62	0	0	0	0.0%	0.0%	0	0.0%	0		1,068
C	25	Townhome	3	1.0	790	1,212	76	1,288	363,600	0	28.9%	25.0%	19,750	27.3%	19,750		1,234
D	0	Townhome	5	2.0	1,343	0	105	0	0	0	0.0%	0.0%	0	0.0%	0		1,424
E	13	Townhome	4	2.0	1,065	1,299	76	1,375	202,644	0	16.1%	13.0%	13,845	19.1%	13,845		1,377
									566,244	0	45.1%	38.0%	33,595	46.4%	33,595		
50% Family	Area Median Income Units Occupancy																
A	1	Townhome	1	1.0	350	732	56	788	8,784	0	0.7%	1.0%	350	0.5%	350	Low HOME	740
B	1	Townhome	2	1.0	560	877	62	939	10,524	0	0.8%	1.0%	560	0.8%	560	Low HOME	890
C	1	Townhome	3	1.0	790	1,212	76	1,288	14,544	0	1.2%	1.0%	790	1.1%	790	Low HOME	1,028
D	1	Townhome	5	2.0	1,343	1,342	105	1,447	16,104	0	1.3%	1.0%	1,343	1.9%	1,343	Low HOME	1,186
E	1	Townhome	4	2.0	1,065	1,299	76	1,375	15,588	0	1.2%	1.0%	1,065	1.5%	1,065	Low HOME	1,147
G	0	0	0	0.0	0	0	0	0	0	0	0.0%	0.0%	0	0.0%	0		N/A
H	0	0	0	0.0	0	0	0	0	0	0	0.0%	0.0%	0	0.0%	0		N/A
I	0	0	0	0.0	0	0	0	0	0	0	0.0%	0.0%	0	0.0%	0		N/A
J	0	0	0	0.0	0	0	0	0	0	0	0.0%	0.0%	0	0.0%	0		N/A
Mgrs	0								0	0	0.0%	0.0%	0	0.0%	0		

Total Revenue Units 100
 Income Average 60%
 Set Aside 100.00%

Gross Rent Potential 1,256,268
 Average Monthly Rent 1,047
 Gross Square Footage 72,401

HOME Units SF/Total Units SF 5.7%
 # HOME Units/# Total Units 5.0%

Within Range
 Within Range

Utility Allowances

	Tenant-Paid	Owner-Paid	Owner-Paid			
	Electricity	A/C	Gas	Water/ Sewer	Other	Total
A	56					56
B	62					62
C	76					76
D	105					105
E	76					76
F	91					91
G	0					0
H	0					0

Annual Non-Rental Income

Misc. and Interest 3,500
 Laundry 3,549
 Carports
 Other:
 Other: 7,049

Total Income	Annual	Monthly
Rental Income	1,256,268	104,689
Non-Rental Income	7,049	587
Total Project Revenue	1,263,317	105,276

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
RESOLUTION DETERMINING MORTGAGE LOAN FEASIBILITY
LAROY FROH, MSHDA DEVELOPMENT NO. 3968
CITY OF LANSING, INGHAM COUNTY

August 2, 2021

WHEREAS, the Lansing Housing Commission (the "Seller") is the owner of a development for low and moderate income persons located in the City of Lansing, Ingham County, Michigan, to be known as LaRoy Froh, MSHDA Development No. 3968 (the "housing project"); and

WHEREAS, the housing project shall receive federal project-based rental assistance under the Section 8 program; and

WHEREAS, the Lansing Housing Commission (the "Applicant") desires to purchase and rehabilitate the housing project for an estimated total development cost of Twenty-One Million Nine Hundred Thirty-Nine Thousand Four Hundred Sixty-Nine Dollars (\$21,939,469); and

WHEREAS, the Applicant has filed an Application for Mortgage Loan Feasibility with the Authority for a tax-exempt mortgage loan in the maximum amount of Eleven Million Four Hundred Eight Thousand Five Hundred Twenty-Four Dollars (\$11,408,524) (hereinafter referred to as the "Application") to finance the acquisition and rehabilitation of the housing project, as described in the attached Mortgage Loan Feasibility/Commitment Staff Report dated August 2, 2021 (the "Staff Report"); and

WHEREAS, the Michigan State Housing Development Authority (the "Authority") is authorized under the provisions of Act No. 346 of the Public Acts of 1966 of the State of Michigan, as amended (the "Act"), to make mortgage loans to qualified non-profit housing corporations, consumer housing cooperatives and limited dividend housing corporations and associations; and

WHEREAS, a housing association to be formed by the Applicant (the "Mortgagor") may become eligible to receive a Mortgage Loan from the Authority under the provisions of the Act and the Authority's General Rules; and

WHEREAS, the Acting Executive Director has forwarded to the Authority his analysis of the Application and his recommendations with respect thereto; and

WHEREAS, the Authority has considered the Application in the light of the Authority's project mortgage loan feasibility evaluation factors.

NOW, THEREFORE, Be It Resolved by the Michigan State Housing Development Authority as follows:

1. The following determinations be and they hereby are made:
 - a. The proposed housing project will provide housing for persons of low and moderate income and will serve and improve the residential area in which

Authority-financed housing is located or is planned to be located, thereby enhancing the viability of such housing.

- b. The Applicant is reasonably expected to be able to achieve successful completion of the proposed housing project.
- c. The proposed housing project will meet a social need in the area in which it is to be located.
- d. A mortgage loan, or a mortgage loan not made by the Authority that is a federally-aided mortgage, can reasonably be anticipated to be obtained to provide financing for the proposed housing project.
- e. The proposed housing project is a feasible housing project.
- f. The Authority expects to allocate to the financing of the proposed housing project proceeds of its bonds issued or to be issued for multifamily housing projects a maximum principal amount not to exceed Thirteen Million Nine Hundred Forty-Seven Thousand One Hundred Forty-Two Dollars (\$13,947,142).

2. The proposed housing project be and it is hereby determined to be feasible for a mortgage loan on the terms and conditions set forth in the Staff Report presented to the meeting, subject to any and all applicable determinations and evaluations issued or made with respect to the proposed housing project by other governmental agencies or instrumentalities or other entities concerning the effects of the proposed housing project on the environment as evaluated pursuant to the federal National Environmental Policy Act of 1969, as amended, and the regulations issued pursuant thereto as set forth in 24 CFR Part 58.

3. The determination of feasibility is based on the information obtained from the Applicant and the assumption that all factors necessary for the successful construction and operation of the proposed housing project shall not change in any materially adverse respect prior to the closing. If the information provided by the Applicant is discovered to be materially inaccurate or misleading, or any factors necessary for the successful construction and operation of the proposed project change in any materially adverse respect, this feasibility determination resolution may, at the option of the Executive Director, the Chief Housing Investment Officer, the Director of Legal Affairs, the Deputy Director of Legal Affairs, the Chief Financial Officer, the Deputy Director of Finance or any person duly authorized to act in any of the foregoing capacities (each an "Authorized Officer"), be immediately rescinded.

4. Neither this determination of feasibility nor the execution prior to closing of any documents requested to facilitate processing of a proposed mortgage loan to be used in connection therewith constitutes a promise or covenant by the Authority that it will make a Mortgage Loan to the Mortgagor.

5. This determination of Mortgage Loan Feasibility is conditioned upon the availability of financing to the Authority. The Authority does not covenant that funds are or will be available for the financing of the subject proposed housing development.

6. The Mortgage Loan Feasibility determination is subject to the conditions set forth in the Staff Report dated August 2, 2021, which conditions are hereby incorporated by reference

as if fully set forth herein.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

**RESOLUTION AUTHORIZING MORTGAGE LOAN
LARROY FROH, MSHDA DEVELOPMENT NO. 3968
CITY OF LANSING, INGHAM COUNTY**

August 2, 2021

WHEREAS, the Michigan State Housing Development Authority (the "Authority") is authorized, under the provisions of Act No. 346 of the Public Acts of 1966 of the State of Michigan, as amended (hereinafter referred to as the "Act"), to make mortgage loans to qualified nonprofit housing corporations, consumer housing cooperatives, limited dividend housing corporations and associations and certain qualified individuals; and

WHEREAS, an application (the "Application") has been filed with the Authority by the Lansing Housing Commission (the "Applicant") for a mortgage loan in the amount of Eleven Million Four Hundred Eight Thousand Five Hundred Twenty-Four Dollars (\$11,408,524) (the "Mortgage Loan") for the acquisition, rehabilitation and permanent financing of a multi-family housing project having an estimated total development cost of Twenty-One Million Nine Hundred Thirty-Nine Thousand Four Hundred Sixty-Nine Dollars (\$21,939,469), to be known as LaRoy Froh (the "housing project"), located in the City of Lansing, Ingham County, Michigan, and to be owned by LaRoy Froh Limited Dividend Housing Association Limited Partnership (the "Mortgagor"); and

WHEREAS, the Applicant has also requested a mortgage loan under the HOME Investment Partnerships Program using HOME funds in the estimated amount of Four Hundred Sixty-Four Thousand Five Hundred Ninety-Six Dollars (\$464,596) (the "HOME Loan"); and

WHEREAS, the Acting Executive Director has forwarded to the Authority his analysis of the Application and his recommendation with respect thereto; and

WHEREAS, the Authority has reviewed the Application and the recommendation of the Acting Executive Director and, on the basis of the Application and recommendation, has made determinations that:

- (a) The Mortgagor is an eligible applicant;
- (b) The proposed housing project will provide housing for persons of low and moderate income and will serve and improve the residential area in which Authority-financed housing is located or is planned to be located thereby enhancing the viability of such housing;
- (c) The Applicant and the Mortgagor are reasonably expected to be able to achieve successful completion of the proposed housing project;
- (d) The proposed housing project will meet a social need in the area in which it is to be located;
- (e) The proposed housing project may reasonably be expected to be marketed

successfully;

- (f) All elements of the proposed housing project have been established in a manner consistent with the Authority's evaluation factors, except as otherwise provided herein;
- (g) The construction or rehabilitation will be undertaken in an economical manner and it will not be of elaborate design or materials; and
- (h) In light of the estimated total project cost of the proposed housing project, the amount of the Mortgage Loan authorized hereby is consistent with the requirements of the Act as to the maximum limitation on the ratio of mortgage loan amount to estimated total project cost.

WHEREAS, the Authority has considered the Application in the light of the criteria established for the determination of priorities pursuant to General Rule 125.145 and hereby determines that the proposed housing project is consistent therewith; and

WHEREAS, Sections 83 and 93 of the Act provide that the Authority shall determine a reasonable and proper rate of return to limited dividend housing corporations and associations on their investment in Authority-financed housing projects.

NOW, THEREFORE, Be It Resolved by the Michigan State Housing Development Authority as follows:

1. The Application be and it hereby is approved, subject to the terms and conditions of this Resolution, the Act, the General Rules of the Authority, and the Mortgage Loan commitment hereinafter authorized to be issued to the Applicant and the Mortgagor.

2. The Mortgage Loan be and it hereby is authorized and the Acting Executive Director, the Chief Housing Investment Officer, the Director of Legal Affairs, the Deputy Director of Legal Affairs, the Chief Financial Officer or any person duly authorized to act in any of the foregoing capacities, or any one of them acting alone (each an "Authorized Officer"), are hereby authorized to issue to the Applicant and the Mortgagor a commitment for a Mortgage Loan for the acquisition and rehabilitation financing of the proposed housing project in an amount not to exceed Eleven Million Four Hundred Eight Thousand Five Hundred Twenty-Four Dollars (\$11,408,524), and permanent financing in an amount not to exceed Seven Million Three Hundred Seventy-Seven Thousand Five Hundred Seventy Dollars (\$7,377,570), and to have a term of forty (40) years after amortization of principal commences. The Mortgage Loan will bear interest at a rate of three and 95/100 percent (3.95%) per annum. The amount of proceeds of tax-exempt bonds issued or to be issued and allocated to the financing of this housing project shall not exceed Thirteen Million Nine Hundred Forty-Seven Thousand One Hundred Forty-Two Dollars (\$13,947,142).

3. This mortgage loan commitment resolution and issuance of the Mortgage Loan Commitment are based on the information obtained from the Applicant and the assumption that all factors necessary for the successful construction and operation of the proposed housing project shall not change in any materially adverse respect prior to the closing. If the information provided by the Applicant is discovered to be materially inaccurate or misleading, or any factors necessary for the successful construction and operation of the proposed project change in any materially adverse respect, this mortgage loan commitment resolution together with the Mortgage

Loan Commitment issued pursuant hereto may, at the option of an Authorized Officer, be rescinded. Any Authorized Officer is hereby authorized to modify or waive any condition or provision contained in the Commitment. Any Authorized Officer is also hereby authorized to substitute alternate funding sources for or adjust the amounts of any of the subordinate loans described above, provided the total subordinate funding that is authorized herein does not increase.

4. Notwithstanding passage of this resolution or execution of any documents in anticipation of the closing of the proposed mortgage loan, no contractual rights to receive the mortgage loan authorized herein shall arise unless and until an Authorized Officer shall have issued a Mortgage Loan Commitment and the Applicant shall have agreed in writing within fifteen days after receipt thereof, to the terms and conditions contained therein.

5. The proposed housing project be and it hereby is granted a priority with respect to proceeds from the sale of Authority securities which are determined by the Executive Director to be available for financing the construction and permanent loans of the proposed housing project. Availability of funds is subject to the Authority's ability to sell bonds at a rate or rates of interest and at a sufficient length of maturity so as not to render the permanent financing of the development unfeasible.

6. In accordance with Section 93(b) of the Act, the maximum reasonable and proper rate of return on the investment of the Mortgagor in the housing project be and it hereby is determined to be as follows:

- (a) So long as the Housing Assistance Payments Contract or any other federal subsidy is in effect, the rate of return shall be twelve percent (12%) of the Mortgagor's equity, as determined by the Authority.
- (b) Following the expiration or termination of the Housing Assistance Payments Contract or other federal subsidy, the rate of return shall not exceed twenty-five percent (25%) of the Mortgagor's equity, as determined by the Authority.
- (c) The Mortgagor's return on equity shall be fully cumulative.

7. The Authority hereby waives Section II.B.2(f) of the Multifamily Direct Lending Parameters adopted on June 28, 2017 setting forth deferred payments on the HOME loan. HOME loan payments are to begin the first year after construction completion.

8. The Authority hereby waives Section III.K of Multifamily Direct Lending Parameters adopted on June 28, 2017, requiring the establishment of an Operating Deficit Reserve if a development does not have sufficient cash flow to maintain a DCR of 1.0 over the 20-year period.

9. The Mortgage Loan shall be subject to, and the Mortgage Loan Commitment shall contain, the conditions set forth in the Mortgage Loan Feasibility/Commitment Staff Report dated August 2, 2021, which conditions are hereby incorporated by reference as if fully set forth herein.



MSHDA

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

M E M O R A N D U M

TO: Authority Members

FROM: Gary Heidel, Acting Executive Director

DATE: August 2, 2021

RE: Lockwood of Ann Arbor, Development No. 3845

Gary Heidel

RECOMMENDATION:

I recommend that the Michigan State Housing Development Authority (the "Authority") adopt resolutions that 1) determine Mortgage Loan Feasibility as to the following proposal, 2) authorize tax-exempt bond and Mortgage Resource Fund ("MRF") mortgage loans in the amounts set forth in this report, 3) authorize waivers of the Multifamily Direct Lending Parameters ("Parameters") to (a) allow the Operating Assurance Reserve ("OAR") to be funded at construction completion, (b) allow a Debt Coverage Ratio of 1.15, and (c) require payments on the MRF Loan to begin in the first year after the Mortgage Cut-Off Date, and 4) authorize the Executive Director, or an Authorized Officer of the Authority, to issue the Authority's Mortgage Loan Commitment with respect to this development, subject to the terms and conditions set forth in this report.

PROJECT SUMMARY:

MSHDA No:	3845
Development Name:	Lockwood of Ann Arbor
Development Location:	City of Ann Arbor, Washtenaw County
Sponsor:	Lockwood Development Company LLC
Mortgagor:	Lockwood of Ann Arbor Limited Dividend Housing Association Limited Partnership
Number of Units (Affordable and Market Rate):	65 affordable, 89 market senior units
Total Development Cost:	\$44,735,366
TE Bond Permanent Loan:	\$34,205,189
MSHDA Gap Funds:	\$ 1,476,946 MRF Loan
Deferred Developer Fee:	\$ 2,086,824

EXECUTIVE SUMMARY:

Lockwood of Ann Arbor (the “Development”) is an Independent Living Facility, designed to provide housing and a variety of recreational, social, and convenience-oriented services in a congregate setting for their elderly residents. Occupancy will be limited to individuals who are 55 years of age or older, and families where at least one person is 55 or older, and the remaining household members are 50 years of age or older. Transportation services are provided as well as a full-time activity director to provide programs to keep the residents active and socially involved. Staff will be available on a 24-hour basis to render help and notify hospital and family if needed.

Some services are provided at an additional charge such as housekeeping services, laundry services as well as meal plan offerings. Although all units include a standard kitchen, residents will be able to enjoy high quality meals in a central dining room so that residents need not fix their own meals, eat alone, or wash their own dishes.

Common areas and amenities are located throughout the building, including a community dining room, private dining room areas (for family gatherings), bistro, game room, beauty salon, fitness center, arts/crafts room, TV/movie room, shared laundry facilities, large lobby/lounge, and other multi-functional spaces. There will be outside sitting areas and outside patio spaces as well as a community garden area. An electric car charging station will be located on the apartment grounds. Parking will be open and is located on three sides of the building.

I am recommending Board approval for the following reasons:

- The Development will provide new mixed-income senior housing with additional services.
- Authority financing of this Development presents minimal risk due to the strength of operations of similar developments and the sponsor’s track record.
- A new earning asset will be added to the Authority’s portfolio.

ADVANCING THE AUTHORITY’S MISSION:

- New affordable units will be built offering needed housing to low- and moderate-income seniors.
- The Affordability period for these units range from 40 to 50 years, depending on the funding source.

MUNICIPAL SUPPORT:

- The City of Ann Arbor has approved a 4% PILOT for the Development.

COMMUNITY ENGAGEMENT/IMPACT:

Throughout the process, the development team received support and input from local-residents and neighbors through public meetings. They received support from CARE Ann Arbor at Bryant Community Center and the Washtenaw Housing Alliance, Washtenaw County.

RESIDENT IMPACT:

- No displacement is occurring as this is new construction.

- Residents will benefit from planned activities, van transportation, and will have the option of prepared meals, housekeeping, and linen service.

ISSUES, POLICY CONSIDERATIONS, AND RELATED ACTIONS:

Flagstar Bank is the syndicator in this deal and as a condition to this investment, will also be providing a construction loan that matures at substantial completion of the Development. The Authority's tax-exempt bond loan will be used to replace Flagstar Bank's construction financing at the end of the rent-up and absorption period and will be converted at the end of that period to a permanent, amortizing loan. This is the fourth Authority-financed transaction with Flagstar Bank utilizing this loan structure. To ensure that the 50% Test is met, the following conditions must be satisfied: (1) the Authority's feasibility (aka inducement) resolution for this development must (a) be issued before the commencement of construction and (b) confirm the Authority's intent that the tax-exempt bond loan will be used to repay the Flagstar construction loan; (2) proceeds from the tax-exempt bonds that fund the Authority's take-out and permanent loan must repay the Flagstar Bank construction loan before the development's placed-in-service date; and (3) the tax-exempt bond loan must exceed 50% of the total development costs.

Additionally, a waiver of Section VI.K(1) of the Parameters is required to permit the operating assurance reserve to be funded at construction completion rather than the closing of the Flagstar Bank loan. A waiver of Section VI.A is also required to allow a Debt Coverage of 1.15 on new construction or acquisition/rehabilitation as opposed to 1.2.

The Authority's Parameters (Section II.B.2(f)) require that annual payments equal to 50% of cash available for distribution are required on subordinate gap loans after 12 years or when the sum of all surplus cash available for distribution equals the amount of deferred developer fee. The Authority is implementing a new policy in cases where the developer fee exceeds \$2.1 million. In this case, the 50% cash flow payment will begin immediately following the first year after construction completion because the developer fee is over the \$2.1 million limit. Furthermore, any cost savings and residual receipts during the construction period will be used to pay down the gap loan.

The City of Ann Arbor is very supportive of this new construction project that will provide 65 units of affordable housing for the elderly. As a condition of the City's approval to rezone the property, the property will be subjected to a Development Agreement with the City that imposes a number of design standards and an affordability restriction that will run with the land, ensuring that Lockwood of Ann Arbor will remain affordable in perpetuity. This restriction must, however, be subordinated to the Authority's loans.



MORTGAGE LOAN FEASIBILITY/COMMITMENT STAFF REPORT

August 2, 2021

RECOMMENDATION:

I recommend that the Michigan State Housing Development Authority (the "Authority") adopt resolutions that 1) determine Mortgage Loan Feasibility as to the following proposal, 2) authorize tax-exempt bond and Mortgage Resource Fund ("MRF") mortgage loans in the amounts set forth in this report, 3) authorize waivers of the Multifamily Direct Lending Parameters ("Parameters") to allow the Operating Assurance Reserve (OAR) to be funded at construction completion and a Debt Coverage Ratio of 1.15 (as opposed to 1.2) and require payments on the MRF Loan to begin in the first year after the Mortgage Cut-Off Date, and 4) authorize the Executive Director, or an Authorized Officer of the Authority, to issue the Authority's Mortgage Loan Commitment with respect to this development, subject to the terms and conditions set forth in this report.

<u>MSHDA No.:</u>	3845
<u>Development Name:</u>	Lockwood of Ann Arbor
<u>Development Location:</u>	City of Ann Arbor, Washtenaw County
<u>Sponsor:</u>	Lockwood Development Company LLC
<u>Mortgagor:</u>	Lockwood of Ann Arbor Limited Dividend Housing Association Limited Partnership
<u>Flagstar Construction Loan:</u>	\$33,879,356
<u>TE Bond Construction/Permanent Loan:</u>	\$34,205,189
<u>MSHDA Permanent MRF Loan:</u>	\$1,476,946
<u>Total Development Cost:</u>	\$44,735,366
<u>Mortgage Amortization and Term:</u>	40 years for the tax-exempt bond loan; 50 years for the MRF loan
<u>Interest Rate:</u>	3.95% for the tax-exempt bond loan; 3% simple interest for the MRF loan
<u>Program:</u>	Tax-Exempt Bond and Gap Financing Programs
<u>Number of Units:</u>	154 elderly units of new construction
<u>Unit Configuration:</u>	Eighty-nine (89) one-bedroom, one-bath units; Sixty-five (65) two-bedroom, one-bath units
<u>Builder:</u>	Lockwood Construction Company LLC
<u>Syndicator:</u>	Flagstar
<u>Date Application Received:</u>	August 15, 2020
<u>HDO:</u>	Ryan Koenigsknecht

Issuance of the Authority's Mortgage Loan Commitment is subject to fulfillment of all Authority processing and review requirements and obtaining all necessary staff approvals as required by the Authority's underwriting standards.

ISSUES, POLICY CONSIDERATIONS AND RELATED ACTIONS:

Flagstar Bank is the syndicator in this deal and as a condition to this investment, will also be providing a construction loan that matures at substantial completion of the development. The Authority's tax-exempt bond loan will be used to replace Flagstar Bank's construction financing through the end of the rent-up and absorption period and will be converted at the end of that period to a permanent, amortizing loan. This is the fourth Authority-financed transaction with Flagstar Bank utilizing this loan structure. To ensure that the 50% Test is met, the following conditions must be satisfied: (1) the Authority's feasibility (aka inducement) resolution for this development must (a) be issued before the commencement of construction and (b) confirm the Authority's intent that the tax-exempt bond loan will be used to repay the Flagstar construction loan; (2) proceeds from the tax-exempt bonds that fund the Authority's take-out and permanent loan must repay the Flagstar Bank construction loan before the development's placed-in-service date; and (3) the tax-exempt bond loan must exceed 50% of the total development costs.

Additionally, three waivers of the Parameters are requested. First, a waiver of Section VI.K(1) of the Parameters is required to permit the operating assurance reserve to be funded at construction completion rather than the closing of the Flagstar Bank loan. Second, a waiver of Section VI.A is required to allow a Debt Coverage of 1.15 on new construction or acquisition/rehabilitation as opposed to 1.2.

Third, the Authority's Parameters (Section II.B.2(f)) require that annual payments equal to 50% of cash available for distribution are required on subordinate gap loans after 12 years or when the sum of all surplus cash available for distribution equals the amount of deferred developer fee. The Authority is implementing a new policy in cases where the developer fee exceeds \$2.1 million. Staff is requesting a waiver of this section of the Parameters to require that payments equal to 50% of cash flow will begin immediately following the first year after construction completion because the developer fee is over the \$2.1 million limit. Furthermore, any cost savings and residual receipts other than cost savings attributable to the Rent Up Allowance will be used to pay down the gap loan (see Special Condition No. 8).

The City of Ann Arbor is very supportive of this new construction project that will provide 65 units of affordable housing for the elderly. As a condition of the City's approval to rezone the property, the property will be subjected to a Development Agreement with the City that imposes a number of design standards and an affordability restriction that will run with the land, ensuring that Lockwood of Ann Arbor will remain affordable in perpetuity. This restriction must, however, be subordinated to the Authority's loans (see Special Condition No. 9).

EXECUTIVE SUMMARY:

Lockwood of Ann Arbor is an Independent Living Facility, designed to provide housing and a variety of recreational, social, and convenience-oriented services in a congregate setting for their elderly residents. Occupancy will be limited to individuals who are 55 years of age or older, and families where at least one person is 55 or older, and the remaining household members are 50 years of age or older. Transportation services are provided as well as a full-time activity director to provide programs to keep the residents active and socially involved. Staff will be available on a 24-hour basis to render help and notify hospital and family if needed.

Some services are provided at an additional charge such as housekeeping services, laundry services as well as meal plan offerings. Although all units include a standard kitchen, residents will be able to enjoy high quality meals in a central dining room so that residents need not fix their own meals, eat alone, or wash their own dishes.

Common areas and amenities are located throughout the building, including a community dining room, private dining room areas (for family gatherings), bistro, game room, beauty salon, fitness center, arts/crafts room, TV/movie room, shared laundry facilities, large lobby/lounge, and other multi-functional spaces. There will be outside sitting areas and outside patio spaces as well as a community garden area. An electric car charging station will be located on the apartment grounds. Parking will be open and is located on three sides of the building.

Structure of the Transaction and Funding:

There are several elements to this transaction that are common to new construction transactions:

- Flagstar Bank will provide construction financing in the approximate amount of \$33,879,356 at a floating interest rate of 3.75% and with a term of 20 months or until the substantial completion of construction, if earlier. The construction loan will be repaid by the Authority's tax-exempt bond loan. The construction lender must enter into a Subordination and Intercreditor Agreement (see Special Condition No. 3), a Construction Oversight Agreement (see Special Condition No. 6) and a Certificate of Deposit Agreement (see Special Condition No. 7).
- The Authority will provide tax-exempt bond financing in the amount of \$34,205,189 to take out the Flagstar Bank construction loan at substantial construction completion. This construction take-out loan will require payments of interest only at the rate of 3.95% per annum through a 24-month rent-up and absorption period and will end on the Permanent Financing Date, at which time the Authority's mortgage loan will be converted to a permanent loan. The Authority's feasibility (aka inducement) resolution for this development must (i) be issued before the commencement of construction and (ii) confirm the Authority's intent for the tax-exempt bond loan to repay the Flagstar construction loan. Proceeds from the tax-exempt bonds funding the Authority's loan must be used to take out the Flagstar Bank construction loan before the development's placed-in-service date (see Special Condition No. 5). The Authority's tax-exempt bond loan must be in **First Position**.
- The Authority's permanent tax-exempt bond loan is based upon the projected rents, less vacancy loss, payments to reserves and escrows, operating costs based on comparable data unless modified by project improvements and construction and soft costs at levels appropriate for this specific transaction. The permanent loan includes a 1.15 debt service coverage ratio due to the strong rental market in Ann Arbor, an annual interest rate of 3.95%, with a fully amortizing term of 40 years commencing on the Permanent Financing Date. The Authority's permanent tax-exempt bond loan must be in **First Position**.
- A permanent subordinate loan using an Authority Mortgage Resource Fund Loan (the "MRF Loan") in the amount of \$1,476,946 will be provided at 3% simple interest with payments initially deferred. The MRF Loan will be in **Second Position**.

Mortgage Feasibility/Commitment Staff Report
Lockwood of Ann Arbor, MSHDA No. 3845
City of Ann Arbor, Washtenaw County
August 2, 2021

- Equity support comes from an investment related to the 4% LIHTC in the estimated amount of \$5,661,492.
- Income from operations in the amount of \$1,304,915 will be used as a source of funding to make the interest only payments and the tax and insurance payments during the construction period and the rent-up and absorption period.
- The Sponsor has agreed to defer \$2,086,824 of the developer fee to help fill the remaining funding gap.
- A Twenty-four (24) month rent-up allowance in the amount identified in the attached proforma will be required to support interest payments between construction completion and the Mortgage Cut-Off Date, as determined by the Authority. See Special Condition No. 9.
- An operating assurance reserve ("OAR") will be required in the amount identified in the attached proforma. This reserve will be held by the Authority. \$1,046,811 will be deposited into the OAR at the time the Authority's tax-exempt bond loan is used to take out the Flagstar Bank construction loan.
- A syndicator reserve in the amount of \$520,179 is required by the equity investor for additional operational needs. This reserve will be deposited in the Authority-held OAR upon conversion to the permanent loan, bringing the total OAR amount to \$1,566,990.

Site Selection:

The site has been reviewed by Authority Staff and the Authority's Chief Market Analyst has indicated that the site meets the Authority's current site selection criteria.

Market Evaluation:

The unit mix as well as the amenities package and rent levels have been approved by the Authority's Chief Market Analyst.

Valuation of the Property:

An appraisal dated August 21, 2020, estimates the land value will be \$3,100,000 if the land is rezoned as a Planned Unit Development that will allow the construction of the development. The land was rezoned as a PUD in February of 2021.

CONDITIONS:

At or prior to (i) issuance of the Authority's mortgage loan commitment ("Mortgage Loan Commitment"), (ii) the initial Mortgage Loan Closing (the "Initial Closing"), or (iii) such other date as may be specified herein, the new Mortgagor, and other members of the Development team, where appropriate, must satisfy each of the following conditions by entering into a written agreement or providing documentation acceptable to the Authority:

Standard Conditions:

1. Limitation for Return on Equity:

For each year of the Development's operation, beginning in the year in which the Mortgage Cut-Off Date occurs, payments are limited to twelve percent (12%) of the Mortgagor's equity. For purposes of distributions, the Mortgagor's equity will be the sum of (i) the LIHTC equity; (ii) the brownfield tax credit equity; (iii) the historic tax credit equity; (iv) general partner capital contributions; and (v) any interest earned on an equity escrow held by the Authority (estimated to be a total of \$5,661,492). All such payments shall be referred to as "Limited Dividend Payments". The Mortgagor's return shall be fully cumulative. Limited Dividend Payments shall be capped at 12% per annum, until the MRF Loan has been repaid. Thereafter, Limited Dividend Payments may increase 1% per annum until a cap of 25% per annum is reached.

2. Income Limits:

The income limitations for the 154 elderly units of this proposal are as follows:

- a. 65 units (37 one-bedroom units and 28 two-bedroom units) must be available for occupancy by households whose incomes do not exceed the MTSP 60% income limits, adjusted for family size, until latest of (i) the expiration of the LIHTC "Extended Use Period" as defined in the Development's LIHTC Regulatory Agreement; (ii) 50 years from Initial Closing; or (iii) so long as any Authority loan remains outstanding.
- b. 89 units (52 one-bedroom units and 37 two-bedroom units) are market rate and may be rented without regard to income.

To the extent units within the Development are subject to multiple sets of income limits, the most restrictive income limit will apply so long as the applicable term of affordability continues.

The income of individuals and area median income shall be determined by the Secretary of the Treasury in a manner consistent with determinations of lower income families and area median income under Section 8 of the U.S. Housing Act of 1937, including adjustments for family size.

3. Limitations on Rental Rates:

The Total Housing Expense (contract rent plus tenant-paid utilities) for 154 units is subject to the following limitations:

- a. The Total Housing Expense for 65 units (37 one-bedroom units, and 28 two-bedroom units), may not exceed the MTSP 60% rent limit, adjusted for family size and based upon an imputed occupancy of one and one-half persons per bedroom. This restriction will apply until the latest of (i) the end of the Extended Use Period, (ii) 50 years after Initial Closing; or (iii) so long as any Authority loan remains outstanding.
- b. 89 units (52 one-bedroom units, and 37 two-bedroom units) are market rate and there shall be no limit on the rents charged for these units.

To the extent units within the Development are subject to multiple sets of rent limits, the most restrictive rent limit will apply so long as the applicable term of affordability continues.

For the initial lease term of the first household occupying each rent restricted unit in the Development the initial rent may not exceed 105% of the rent approved in this Mortgage Loan Feasibility/Commitment Staff Report. Rental increases on occupied units during any 12-month period will be limited to not more than 5% of the rent paid by the resident household at the beginning of that annual period. Rents on vacated units may be increased to the maximum level permissible by the applicable programs. Rents and utility allowances must be approved annually by the Authority's Division of Asset Management.

Exceptions to the foregoing limitations may be granted by the Authority's Director of Asset Management to pay for extraordinary increases in development operating expenses (exclusive of Limited Dividend Payments) or to enable the owner to amortize a Mortgage Loan increase to fund cost overruns pursuant to the Authority's policy on Mortgage Loan increases.

4. Covenant Running with the Land:

The Mortgagor must subject the Development site to a covenant running with the land so as to preserve the tax-exempt status of the obligations issued or to be issued to finance the Mortgage Loan. This covenant will provide that each unit must be rented or available for rental on a continuous basis to members of the general public for a period ending on the latest of the date which is 15 years after the date on which 50% of the residential units in the Development are occupied, the first day on which no bonds are outstanding with respect to the project, or the date on which assistance provided to the project under Section 8 of the U.S. Housing Act of 1937 terminates. The income of individuals and area median income shall be determined by the Secretary of the Treasury in a manner consistent with determinations of lower income families and area median income under Section 8 of the U.S. Housing Act of 1937, including adjustments for family size. Until the Secretary of the Treasury publishes its requirements, income of the individuals shall be determined in accordance with Section 8 regulations. Additionally, if LIHTC is awarded to the Development, the Mortgagor must agree to subject the property to the extended low income use commitment required by Section 42 of the Internal Revenue Code.

5. Restriction on Prepayment and Subsequent Use:

The Mortgage Loan is eligible for prepayment after the expiration of fifteen (15) years after the commencement of amortization and/or expiration of the LIHTC initial compliance period, whichever is later. The Mortgagor must provide the Authority with at least 60 days' written notice prior to any such prepayment.

In the event of a prepayment, however, the Mortgagor must pay a prepayment fee equal to the sum of:

- a. 1% of the balance being prepaid;
- b. Any bond call premium, prepayment or swap penalty, or any other cost that the Authority incurs to prepay the bonds or notes that were used to fund the Mortgage Loan; and

- c. Any loss of debt service spread between the Mortgage Loan and the bonds used to finance the loan from the date of the prepayment through the end of the 20th year of amortization.

Once the Mortgagor has been approved for the early prepayment of the underlying loan, it must sign an agreement with the Authority stating it is responsible for the cost of terminating the swap. The Mortgagor can then choose the timing of the termination and participate in the transaction with the swap counterparty. The swap counterparty will quote the cost of terminating the swap and the Mortgagor will have the ability to execute the transaction or cancel at its sole discretion. If the Mortgagor chooses not to terminate the swap, it will forfeit the right to prepay the Mortgage Loan.

Subordinate loans are eligible to prepay at any time upon 60 days prior written notice to the Authority, but prepayment may not extinguish federal affordability and compliance requirements.

6. Operating Assurance Reserve:

At the time the Authority's Mortgage Loan is used to take out the Flagstar Bank construction loan, the Mortgagor shall fund an initial deposit of \$1,046,811 to the operating assurance reserve ("OAR"). Upon conversion of the Mortgage Loan to a permanent Mortgage Loan, an additional deposit will be made in the amount of \$520,179, so that the amount is equal to 4-months' of estimated Development operating expenses (estimated to be \$1,567,801). The OAR will be used to fund operating shortfalls incurred at the Development and will be disbursed by the Authority in accordance with the Authority's written policy on the use of the Operating Assurance Reserve, as amended from time to time. The OAR must be either (i) fully funded with cash, or (ii) funded with a combination of cash and an irrevocable, unconditional letter of credit acceptable to the Authority, in an amount that may not exceed 50% of the OAR requirement. To the extent that any portion of the OAR is drawn for use prior to the final closing of the Mortgage Loan, the Mortgagor must restore the OAR to its original balance at final closing.

7. Replacement Reserve:

The Mortgagor must agree to establish a replacement reserve fund ("Replacement Reserve") by making annual deposits to the Replacement Reserve, beginning on the Mortgage Cut-Off Date, at a minimum of \$300 per unit for the first year of operation, payable in monthly installments, with deposits in subsequent years to be the greater of (i) the prior year's deposit, increased by 3%, or (ii) a percentage of the Development's projected annual rental income or gross rent potential ("GRP") for the year using the percentage obtained by dividing the first year's deposit by the first year's GRP shown on the operating proforma for the Development attached hereto. The annual deposit to the Replacement Reserve may also be increased to any higher amount that is determined to be necessary by the Authority, based on a CNA and the Authority's Replacement Reserve policies. The Authority may update any CNA or obtain a new CNA every five years, or upon any frequency, as determined necessary by the Authority.

8. Authority Subordinate Loan(s):

At Initial Closing, the Mortgagor must enter into agreements relating to the MRF Loan. The

MRF Loan will be secured by a subordinate mortgage and will bear simple interest at 3% with a 50-year term. Following the first year after construction completion, repayment of the MRF Loan will be made from fifty percent (50%) of any surplus cash available for distribution. Such payments shall be applied first to accrued interest, then to current interest and principal. Payments shall continue until the sale of the Development or refinancing of the Mortgage Loan, at which time the MRF Loan shall be due in full. If the MRF Loan is still outstanding, then following repayment of the Mortgage Loan and continuing on the first day of every month thereafter, the Mortgagor shall make monthly payments of principal and interest equal to the monthly payments that were required on the Mortgage Loan on the first day of every month until the MRF Loan is paid in full, sale of the Development or the date that is 50 years from date of Initial Closing, whichever occurs first.

9. Architectural Plans and Specifications; Contractor's Qualification Statement:

Prior to Mortgage Loan Commitment, the architect must submit architectural drawings and specifications that address all design review comments, acceptable to the Authority's Chief Architect and the Director of Development.

Prior to Mortgage Loan Commitment, the general contractor must submit AIA Document A305 as required by the Authority's Chief Architect.

10. Owner/Architect Agreement:

Prior to Mortgage Loan Commitment, the Mortgagor must provide the Authority with an executed Owner Architect Agreement acceptable in form and substance to the Director of Legal Affairs.

11. Trade Payment Breakdown:

Prior to Mortgage Loan Commitment, the general contractor must submit a signed Trade Payment Breakdown acceptable to the Authority's Design and Construction Manager.

12. Cost Certification:

The contractor's cost certification must be submitted within 90 days following the completion of construction, and the Mortgagor's cost certification must be submitted within 90 days following the Mortgage Cut-off Date. For LIHTC, the owner is obligated to submit cost certifications applicable to itself and the contractor prior to issuance of IRS form 8609 (see LIHTC Program Cost Certification Guidelines).

13. Environmental Review and Indemnification:

Prior to Mortgage Loan Commitment, the Mortgagor must address any outstanding environmental issues, in form and substance acceptable to the Authority's Environmental Review Officer.

At the closing of the Authority's tax-exempt bond loan, the Mortgagor must enter an agreement to indemnify the Authority for any loss, damage, liability, claim, or expense which it incurs as a result of any violation of environmental laws. The indemnification agreement must be acceptable to the Director of Legal Affairs.

14. Title Insurance Commitment and Survey:

Prior to Mortgage Loan Commitment, the Mortgagor must provide an updated title insurance commitment, including zoning, pending disbursement, comprehensive, survey and such other endorsements as deemed necessary by the Authority's Director of Legal Affairs. The updated title commitment must contain only exceptions to the insurance acceptable to the Authority's Director of Legal Affairs.

Additionally, prior to Mortgage Loan Commitment, the Mortgagor must provide a surveyor's certificate of facts together with an ALTA survey certified to the 2021 minimum standards, and that appropriately reflects all easements, rights of way, and other issues noted on the title insurance commitment. All documents must be acceptable to the Director of Legal Affairs.

15. Organizational Documents/Equity Pay-In Schedule:

Prior to Mortgage Loan Commitment, the Mortgagor must submit a substantially final form syndication partnership agreement, including an equity pay-in schedule, that is acceptable in form and substance to the Director of Development and Director of Legal Affairs.

At or prior to Initial Closing, the final, executed syndication partnership agreement must become effective and the initial installment of equity must be paid in an amount approved by the Director of Development.

16. Designation of Authority Funds:

The Authority reserves the express right, in its sole discretion, to substitute alternate subordinate funding sources.

17. Management & Marketing:

Prior to Mortgage Loan Commitment, the management and marketing agent must submit the following documents, which must be found acceptable to the Director of Asset Management:

- a. Management Agreement
- b. Marketing Addendum

18. Guaranties:

At the closing of the Authority's tax-exempt bond loan, the Sponsor, General Partner, and any entity receiving a developer fee in connection with the Development must deliver certain guaranties. The required guaranties include a guaranty of an operating deficit guaranty and a performance completion guaranty. The required guaranties, the terms thereof and the parties who shall be required to deliver the guaranty must be determined and approved by the Authority's Director of Development.

19. Financial Statements:

Prior to Mortgage Loan Commitment, financial statements for the Sponsor, the guarantor(s) and the general contractor must be reviewed and found acceptable by the Authority's Chief Financial Officer.

If prior to Initial Closing the financial statements that were approved by the Authority become more than six months old, the Sponsor, the guarantor(s) and/or the general contractor must provide the Authority with updated financial statements meeting Authority requirements upon request.

20. Future Contributions:

Prior to Initial Closing, to ensure the Authority is contributing the least amount of funding necessary to achieve project feasibility, any decrease in Development costs or future contributions not included in the Development proforma may, at the Authority's discretion, be utilized to reduce, in equal proportions, any deferred developer fee and Authority soft funds.

21. Ownership of Development Reserves:

At the closing of the Authority's tax-exempt bond loan, the Mortgagor must enter into an agreement confirming the Authority's ultimate ownership of excess cash reserves, escrows and accounts as may exist at the time the Authority's mortgage loans are paid off or the Development is sold or refinanced. This agreement must be acceptable to the Authority's Director of Legal Affairs.

22. Application for Disbursement:

Prior to Initial Closing, the Mortgagor must submit an "Application for Disbursement" along with supporting documentation, which must be found acceptable to the Authority's Director of Development.

Special Conditions:

1. Legal Requirements:

The Mortgagor and/or Sponsor must submit documentation acceptable to the Authority's Director of Legal Affairs for the items listed below:

- Prior to Initial Closing, the Michigan Attorney General's Office must complete its review of the transaction and provide the Director of Legal Affairs its recommendation.
- Any other documentation as required by the Director of Legal Affairs, including acceptable evidence of insurance, permits, licenses, zoning approvals, utility availability, payment and performance bonds and other closing requirements.

2. Congregate Services:

At the closing of the Authority's tax-exempt bond loan, the sponsor must agree in writing to provide congregate services as described in the management and marketing plans for the tenants occupying the income restricted LIHTC units for the life of the Mortgage Loan. The

services must include, at the option of the tenants occupying these units, one meal per day, light housekeeping, laundry services, and handyman services. The cost of these services must be paid from other than Mortgage Loan proceeds, development rental income attributable to the LIHTC units, and residual receipts.

3. Construction Loan, Regulatory Agreement Priority and Subordination and Intercreditor Agreement:

Prior to Mortgage Loan Commitment, the Mortgagor must submit a loan commitment from Flagstar Bank and substantially final documents evidencing the construction loan, including a subordination and intercreditor agreement and a funding schedule acceptable to the Authority's Director of Legal Affairs and Director of Development. The Subordination and Intercreditor Agreement will identify the Bank's construction loan in first priority position; however, the agreement must state that the construction loan and other security interests granted to the Bank are subordinate to the rental and occupancy restrictions in the Authority's bond Regulatory Agreement as well as other provisions of the Regulatory Agreement.

At or prior to Initial Closing, the final, executed construction loan documents must become effective and initial funding of the construction loan must be made in an amount approved by the Director of Development.

The Subordination and Inter Creditor Agreement must confirm that construction did not commence prior to the Authority's approval of the feasibility resolution for the project. The construction lender must also agree not to violate the tax-exempt bond covenants applicable to loans made with the proceeds of tax-exempt bonds.

4. Authority Tax-Exempt Bond Loan:

At Initial Closing, the Authority loan documents, including the tax-exempt bond loan mortgage, and the regulatory agreement, will be in substantially final form. As described above, neither the tax-exempt bond loan nor the MRF loan will be disbursed until the Flagstar Bank construction loan is paid in full and all liens and security interests relating thereto (including the construction loan mortgage) are released, at which time the tax-exempt bond loan mortgage will be the first priority lien on the Development.

5. Tax-Exempt Bonds Proceeds and Placed in Service Date:

Proceeds from the tax-exempt bonds that will fund the Authority's construction take-out and permanent mortgage loan shall be used to repay the Flagstar Bank construction loan prior to development's "placed in service" date.

6. Construction Oversight Agreement:

At or prior to Initial Closing, the Mortgagor, Flagstar Bank, and the General Contractor must enter into a Construction Oversight Agreement with the Authority. The terms and conditions must be acceptable to the Director of Legal Affairs.

7. Flag Star Certificate of Deposit Agreement:

At or prior to Initial Closing, Flagstar Bank or an acceptable affiliated financial institution must enter into an agreement to allow the Authority to purchase a certificate of deposit, if required by the Chief Financial Officer. The amount, terms, and conditions of the certificate of deposit must be acceptable to the Chief Financial Officer and Director of Legal Affairs, and the certificate must contain a federal home loan bank enhancement or otherwise meet the Authority's investing requirements. This agreement must be acceptable to the Authority's Director of Legal Affairs.

8. Residual Receipts and Cost Savings:

Any cost savings and residual receipts identified in the general contractors or mortgagor's cost certification or the final closing audit, except for any unused Rent Up Allowance, must be applied to pay any accrued interest on the MRF loan, then to principal, to the extent available, and may not be used to pay down any deferred developer fee. Any cost savings attributable to unused Rent Up Allowance will be split equally between the payment of (i) accrued interest, and then principal, on the Authority's MRF Loan, and (ii) any deferred developer fee.

9. Subordination of City Development Agreement:

The Development Agreement between the Mortgagor and the City of Ann Arbor which imposes an affordability restriction i that will run with the land in perpetuity must be recorded so that it is subordinate to the Authority's Mortgage Loan and MRF Loan. In addition, the Mortgagor must enter into an assignment of its rights under the Development Agreement to the Authority, which may be exercised in the event of a default.

DEVELOPMENT TEAM AND SITE INFORMATION

I. **MORTGAGOR:** Lockwood of Ann Arbor Limited Dividend Housing Association
Limited Partnership

II. **GUARANTOR(S):**

A. **Guarantor #1:**

Name: Lockwood Development Company LLC
Address: 27777 Franklin Road
Suite 1410
Southfield, MI 48034

III. **DEVELOPMENT TEAM ANALYSIS:**

A. **Sponsor:**

Name: Lockwood Development Company LLC
Address: 27777 Franklin Road

Mortgage Feasibility/Commitment Staff Report
Lockwood of Ann Arbor, MSHDA No. 3845
City of Ann Arbor, Washtenaw County
August 2, 2021

Suite 1410
Southfield, MI 48034

Individuals Assigned: Steve Gabrys
Telephone: 248-433-7416
E-mail: sgabrys@lockwoodcompanies.com

1. **Experience:** The Sponsor has experience working on Authority-financed developments.
2. **Interest in the Mortgagor and Members:** Ann Arbor Ellsworth, LLC – 0.01%; Rodney M. Lockwood, Jr. 99.99%

B. Architect:

Name: Edmund London & Associates, Inc.
Address: 20750 Civic Center Drive
Suite 610
Southfield, MI 48076

Individual Assigned: Jordan London
Telephone: 248-353-4820
E-Mail: jlondon@ela-architects.com

1. **Experience:** Architect has previous experience with Authority-financed developments.
2. **Architect's License:** License number 1301034183, exp. 10/31/21.

C. Attorney:

Name: Loomis, Ewert, Parsley, Davis & Gotting P.C.
Address: 124 Allegan
Suite 700
Lansing, MI 48933

Individual Assigned: Ted Rozeboom
Telephone: 517-482-2400
E-Mail: tsrozeboom@loomislaw.com

1. **Experience:** This firm has experience in closing Authority-financed developments.

D. Builder:

Name: Lockwood Construction Company, LLC
Address: 27777 Franklin Road
Suite 1410

Mortgage Feasibility/Commitment Staff Report
Lockwood of Ann Arbor, MSHDA No. 3845
City of Ann Arbor, Washtenaw County
August 2, 2021

Southfield, MI 48034

Individual Assigned: Dean Schroeder
Telephone: 248-433-7419
E-mail: dschroeder@lockwoodcompanies.com

1. **Experience:** The firm has previous experience in constructing Authority-financed developments.
2. **State Licensing Board Registration:** License number 2102217441, with an expiration date of 5/31/23.

E. Management and Marketing Agent:

Name: Lockwood Management Company, LLC.
Address: 27777 Franklin Road
Suite 1410
Southfield, MI 48034

Individual Assigned: Matt Gatewood
Telephone: 248-258-5223
E-mail: mgatewood@lockwoodcompanies.com

1. **Experience:** This firm has significant experience managing Authority-financed developments.

F. Development Team Recommendation: GO – this team has previous experience on MSHDA financed developments.

IV. SITE DATA:

A. Land Control/Purchase Price:
A purchase agreement for \$1,900,000 has been submitted.

B. Site Location:
2195 E. Ellsworth Road, Ann Arbor, MI 48108

C. Size of Site:
7.89 land acres

D. Density:
Appropriate

E. Physical Description:

1. **Present Use:** Vacant single-family home, storage building, and land.
2. **Existing Structures:** Demolition of single-family home and storage building.
3. **Relocation Requirements:** N/A

- F.** Zoning:
The property is now zoned Planned Unit Development (PUD) to allow this specific 154-unit senior development. All planning approvals have been received.
- G.** Contiguous Land Use:
1. North: Vacant land; Elementary School
 2. South: Single-family residential
 3. East: Multi-family residential
 4. West: Commercial
- H.** Tax Information:
A 4% PILOT on the market rate units and a \$1 per unit PILOT on the affordable units was approved by the City of Ann Arbor.
- I.** Utilities:
Gas: DTE Gas Company
Electricity: DTE Energy
Water: City of Ann Arbor
Sewer: City of Ann Arbor
- J.** Community Facilities:
1. Shopping:
All of these places are within 2 miles from the site: Meijer, Kroger, Rite-Aid, and CVS Pharmacy.
 2. Recreation:
Clinton Park, Mary Beth Doyle Park, and Rose Park are all within a mile from the development.
 3. Public Transportation:
Ann Arbor Transportation Authority “The Ride” offers transportation to residents with discounted rates to Seniors.
 4. Road Systems
The proposed development is less than a mile from I-94 which runs west to Battle Creek and East to Detroit.
 5. Medical Services and other Nearby Amenities:
The University of Michigan Hospital is less than 4 miles from the development.
 6. Description of Surrounding Neighborhood:
The surrounding area is mostly residential. University Townhouse Co-Op is

directly easy from the proposed site. Directly across the road is a single-family home.

7. Local Community Expenditures Apparent:
Throughout the process the Development Team received support and input from local-residents and neighbors through public meetings. They received support from CARE Ann Arbor at Bryant Community Center and the Washtenaw Housing Alliance, Washtenaw County.
8. Indication of Local Support:
The Development received approval from the City of Ann Arbor for a 4% PILOT on May 17, 2021.

V. ENVIRONMENTAL FACTORS:

A Phase I Environmental Site Assessment was submitted to the Authority and has been reviewed by the Authority's Environmental Manager. (See Standard Condition No. 13).

VI. DESIGN AND COSTING STATUS:

Architectural plans and specifications consistent with the scope of work have been reviewed by the Chief Architect. A response to all design review comments and the submission of corrected and final plans and specifications must be made prior to initial closing.

This proposal will satisfy the State of Michigan barrier-free requirements, the Authority's policy regarding accessibility and non-discrimination for the disabled, the Fair Housing Amendments Act of 1988, and the HOME requirements for barrier-free vision and hearing designed units. Construction documents must be acceptable to the Authority's Chief Architect.

VII. MARKET SUMMARY:

The Market study has been reviewed by the Authority's Chief Market Analyst and found to be acceptable. The Authority's Chief Market Analyst has reviewed and approved the unit mix, rental structure, and unit amenities.

VIII. EQUAL OPPORTUNITY AND FAIR HOUSING:

The management and marketing agent's Affirmative Fair Housing Marketing Plan has been approved.

IX. MANAGEMENT AND MARKETING:

The management/marketing agent has submitted application-level management and marketing information, to be approved prior to initial closing by the Authority's Director of Asset Management.

X. FINANCIAL STATEMENTS:

The sponsor's/guarantor's and the builder's financial statements have been submitted and

are to be approved prior to initial closing by the Authority's Director of Development.

XI. DEVELOPMENT SCHEDULING:

A.	Mortgage Loan Commitment:	August 2021
B.	Initial Closing and Disbursement:	September 2021
C.	Construction Completion:	May 2023
D.	Mortgage Cut-Off Date:	May 2025

XII. ATTACHMENTS:

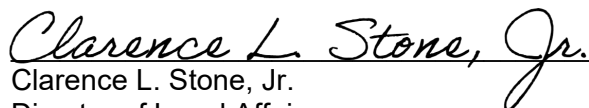
- A.** Development Proforma

APPROVALS:



Chad Benson
Director of Development

Date



Clarence L. Stone, Jr.
Director of Legal Affairs

Date



Gary Heidel
Acting Executive Director

Date

				Per Unit	Total	% in Basis	Included in Tax Credit Basis	Included in Historic TC Basis	OAR Funded	
									Yr 1	4 Month OAR
Project Reserves										
Operating Assurance Reserve	4.0 months	Funded in Cas		10,175	1,566,990	0%	0	0	1,046,811	1,046,811
Replacement Reserve		Not Required		0	0	0%	0	0		
Operating Deficit Reserve				0	0	0%	0	0		
Rent Subsidy Reserve				0	0	0%	0	0		
Syndicator Reserve (Being added to our OAR account)				0	0	0%	0	0		
Rent Lag Escrow				0	0	0%	0	0		
Tax and Insurance Escrows				0	0	0%	0	0		
Other:				0		0%	0	0		
Other:				0		0%	0	0		
Subtotal				10,175	1,566,990					
Miscellaneous										
Deposit to Development Operating Account (1MGF Not Required)				0	0	0%	0	0		
Other (Not in Basis):				0	0	0%	0	0		
Construction Loan Fee				2,200	338,794	100%	338,794	338,794		
Other (In Basis):				0	0	100%	0	0		
Subtotal				2,200	338,794					
Total Acquisition Costs				12,987	2,000,000					
Total Construction Hard Costs				186,351	28,698,127					
Total Non-Construction ("Soft") Costs				63,878	9,837,239					
Developer Overhead and Fee										
Maximum	5,805,281			27,273	4,200,000	100%	4,200,000	4,200,000		
7.5%	of Acquisition/Project Reserves	Override		5%	Attribution Test					
15%	of All Other Development Costs	4,200,000			met					
Total Development Cost				290,489	44,735,366					
TOTAL DEVELOPMENT SOURCES										
MSHDA Permanent Mortgage		% of TDC		222,112	34,205,189					
Conventional/Other Mortgage		76.46%		0	0					
Equity Contribution from Tax Credit Syndication		12.66%		36,763	5,661,492					
MSHDA NSP Funds		0.00%		0						
MSHDA HOME or Housing Trust Funds		0.00%		0						
Mortgage Resource Funds		3.30%		9,591	1,476,946					
Other MSHDA:		0.00%		0						
Local HOME		0.00%		0						
Income from Operations		2.92%		8,473	1,304,915					
Other Equity		0.00%		0						
Transferred Reserves:		0.00%		0	0					
Other:		0.00%		0						
Other:		0.00%		0						
Deferred Developer Fee		4.66%		13,551	2,086,824					
Total Permanent Sources					44,735,366					
Sources Equal Uses?										
Surplus/(Gap)				Balanced 0						
3rd Party Construction Loan										
Construction I	3.95	3.750%		219,996	33,879,356					
Repaid from equity prior to final closing					-325,833					
Eligible Basis for LIHTC/TCAP										
Acquisition	0			Value of LIHTC/TCAP	0					
Construction	15,520,760			Acquisition	620,830	Override				
Acquisition Credit %	4.00%			Construction	620,830					
Rehab/New Const Credit %	4.00%			Total Yr Credit	\$0.9100					
Qualified Percentage	42.21%			Equity Price	\$0.9120	Override				
QCT/DDA Basis Boost	100%			Equity Effective Price	5,648,992					
Historic?	No			Equity Contribution	5,661,492					
Existing Reserve Analysis										
DCE Interest	0			Current Owner's Reserves:						
Insurance:	0			Reserves Transferred in to Project						
Taxes:	0			Tax/Ins Escrows transferred to Project						
Rep. Reserve	0									
ORC:	0									
DCE Principles	0									
Other:	0									
Initial Owner's Equity Calculation										
Equity Contribution from Tax Credit Syndication				5,676,950						
Brownfield Equity										
Historic Tax Credit Equity										
General Partner Capital Contributions										
Other Equity Sources										
New Owner's Equity				5,676,950						

Total Expenses	42.34%	9,336	1,437,696	
Base Net Operating Income		12,715	1,958,148	Override
Part A Mortgage Payment	50.14%	11,057	1,702,738	
Part A Mortgage		222,112	34,205,189	
Non MSHDA Financing Mortgage Payment		0		
Non MSHDA Financing Type:		0		
Base Project Cash Flow (excludes ODR)	7.52%	1,659	255,411	

Development Lockwood of Ann Arbor
 Financing Tax Exempt
 MSHDA No. 3845
 Step Commitment
 Date 08/02/2021
 Type New Construction

Instructions

Income Limits for	Washtenaw County (Effective April 1,2021)					
	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person
30% of area median	22,380	25,560	28,770	31,950	34,530	37,080
40% of area median	29,840	34,080	38,360	42,600	46,040	49,440
50% of area median	37,300	42,600	47,950	53,250	57,550	61,800
60% of area median	44,760	51,120	57,540	63,900	69,060	74,160

Rental Income

Unit	No. of Units	Unit Type	Bedrooms	Baths	Net Sq. Ft.	Contract	Utilities	Total	Gross Rent	Current	% of Gross Rent	% of Total	Gross	% of Total	TC Units	Unit Type	Max Allowed
						Rent		Housing Expense		Section 8 Contract Rent		Units	Square Feet	Square Feet	Housing Expense		
									0	0	0.0%	0.0%	0	0.0%	0		
60% Senior	Area Median Income Units Occupancy																
A	15	Apartment	1	1.0	654	1,077	65	1,142	193,860	0	5.7%	9.7%	9,810	8.1%	9,810		1,198
B	21	Apartment	1	1.0	666	1,077	65	1,142	271,404	0	8.0%	13.6%	13,986	11.5%	13,986		1,198
C	1	Apartment	1	1.0	707	1,077	65	1,142	12,924	0	0.4%	0.6%	707	0.6%	707		1,198
D	5	Apartment	2	1.0	918	1,291	80	1,371	77,460	0	2.3%	3.2%	4,590	3.8%	4,590		1,438
E	9	Apartment	2	1.0	947	1,291	80	1,371	139,428	0	4.1%	5.8%	8,523	7.0%	8,523		1,438
F	13	Apartment	2	1.0	992	1,291	80	1,371	201,396	0	6.0%	8.4%	12,896	10.6%	12,896		1,438
G	1	Apartment	2	1.0	1,132	1,291	80	1,371	15,492	0	0.5%	0.6%	1,132	0.9%	1,132		1,438
									0	0	0.0%	0.0%	0	0.0%	0		
Market Senior	Rate Units Occupancy																
A	10	Apartment	1	1.0	654	1,995	65	2,060	239,400	0	7.1%	6.5%	6,540	5.4%	0		N/A
B	40	Apartment	1	1.0	666	1,995	65	2,060	957,600	0	28.3%	26.0%	26,640	21.9%	0		N/A
C	2	Apartment	1	1.0	707	1,995	65	2,060	47,880	0	1.4%	1.3%	1,414	1.2%	0		N/A
D	10	Apartment	2	1.0	918	2,750	80	2,830	330,000	0	9.8%	6.5%	9,180	7.5%	0		N/A
E	13	Apartment	2	1.0	947	2,750	80	2,830	429,000	0	12.7%	8.4%	12,311	10.1%	0		N/A
F	13	Apartment	2	1.0	992	2,750	80	2,830	429,000	0	12.7%	8.4%	12,896	10.6%	0		N/A
G	1	Apartment	2	1.0	1,132	2,750	80	2,830	33,000	0	1.0%	0.6%	1,132	0.9%	0		N/A
									2,465,880	0	73.0%	57.8%	70,113	57.6%	0		
													121,757		51,644		
Total Revenue Units	154																
Manager Units	0																
Income Average	60.00%																
Set Aside	42.21%																
									Gross Rent Potential		3,377,844	HOME Units SF/Total Units SF		0.0%	Within Range		
									Average Monthly Rent		1,828	# HOME Units/# Total Units		0.0%	Within Range		
									Gross Square Footage		121,757						

Utility Allowances

Tenant-Paid		Tenant-Paid		Water/ Sewer		Other		Total	Overide
Electricity	A/C	Gas							
A	35	0	30	0	0	0	65		
B	35	0	30	0	0	0	65		
C	35	0	30	0	0	0	65		
D	45	0	35	0	0	0	80		
E	45	0	35	0	0	0	80		
F	45	0	35	0	0	0	80		
G	45	0	35	0	0	0	80		
H	0	0	0	0	0	0	0		

Annual Non-Rental Income

Misc. and Interest	0
Laundry	1,200
Carports	
Other: office leases medical/beau	13,200
Application Fees	3,600
	18,000

Total Income	Annual	Monthly
Rental Income	3,377,844	281,487
Non-Rental Income	18,000	1,500
Total Project Revenue	3,395,844	282,987

Cash Flow Projections

Development Lockwood of Ann Arbor
Financing Tax Exempt
MSHDA No. 3845
Step Commitment
Date 08/02/2021
Type New Construction

				Type New Construction																						
				Initial Inflator	Starting in Yr	Future Inflator																				
				1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20			
Income																										
Annual Rental Income	1.0%	6	2.0%	3,377,844	3,411,622	3,445,739	3,480,196	3,514,998	3,585,298	3,657,004	3,730,144	3,804,747	3,880,842	3,958,459	4,037,628	4,118,380	4,200,748	4,284,763	4,370,458	4,457,867	4,547,025	4,637,965	4,730,725			
Annual Non-Rental Income	1.0%	6	2.0%	18,000	18,180	18,362	18,545	18,731	19,105	19,488	19,877	20,275	20,680	21,094	21,516	21,946	22,385	22,833	23,289	23,755	24,230	24,715	25,209			
Total Project Revenue				3,395,844	3,429,802	3,464,100	3,498,741	3,533,729	3,604,403	3,676,492	3,750,021	3,825,022	3,901,522	3,979,553	4,059,144	4,140,327	4,223,133	4,307,596	4,393,748	4,481,623	4,571,255	4,662,680	4,755,934			
Expenses																										
Vacancy Loss	8.0%	6	8.0%	270,228	272,930	275,659	278,416	281,200	286,824	292,560	298,412	304,380	310,467	316,677	323,010	329,470	336,060	342,781	349,637	356,629	363,762	371,037	378,455			
Management Fee	3.0%	1	3.0%	82,236	84,703	87,244	89,861	92,557	95,334	98,194	101,140	104,174	107,299	110,518	113,834	117,249	120,766	124,389	128,121	131,965	135,924	140,001	144,201			
Administration	3.0%	1	3.0%	400,900	412,927	425,315	438,074	451,216	464,753	478,696	493,056	507,848	523,084	538,776	554,939	571,588	588,735	606,397	624,589	643,327	662,627	682,505	702,981			
Project-paid Fuel	3.0%	6	3.0%	14,040	14,461	14,895	15,342	15,802	16,276	16,764	17,267	17,785	18,319	18,869	19,435	20,018	20,618	21,237	21,874	22,530	23,206	23,902	24,619			
Common Electricity	4.0%	6	3.0%	85,800	89,232	92,801	96,513	100,374	103,385	106,487	109,681	112,972	116,361	119,852	123,447	127,151	130,965	134,894	138,941	143,109	147,402	151,824	156,379			
Water and Sewer	5.0%	6	5.0%	68,450	69,773	73,261	76,324	80,770	84,809	89,049	93,502	98,177	103,086	108,240	113,652	119,330	125,301	131,568	138,145	145,052	152,305	159,920	167,916			
Operating and Maintenance	3.0%	1	3.0%	238,652	243,752	251,064	258,596	266,354	274,345	282,575	291,052	299,784	308,777	318,040	327,582	337,409	347,531	357,957	368,696	379,757	391,150	402,884	414,971			
Real Estate Taxes	5.0%	1	5.0%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0			
Payment in Lieu of Taxes (PILOT)				99,000	118,609	119,565	120,520	121,474	123,760	126,086	128,451	130,857	133,304	135,793	138,323	140,896	143,512	146,171	148,874	151,622	154,414	157,251	160,134			
Insurance	3.0%	1	3.0%	73,320	75,520	77,785	80,119	82,522	84,998	87,548	90,174	92,880	95,666	98,536	101,492	104,537	107,673	110,903	114,230	117,657	121,187	124,822	128,567			
Replacement Reserve	3.0%	1	3.0%	48,200	47,586	49,014	50,484	51,999	53,558	55,165	56,820	58,525	60,281	62,089	63,952	65,870	67,846	69,882	71,978	74,137	76,362	78,652	81,012			
Marketing	3.0%	1	3.0%	62,870	64,756	66,669	68,700	70,761	72,884	75,077	77,322	79,642	82,031	84,492	87,027	89,638	92,327	95,097	97,949	100,888	103,915	107,032	110,243			
Other:	3.0%	1	3.0%																							
Subtotal: Operating Expenses				1,437,696	1,494,248	1,533,302	1,573,549	1,615,030	1,660,926	1,708,194	1,756,878	1,807,023	1,858,675	1,911,882	1,966,693	2,020,261	2,081,336	2,141,275	2,203,035	2,266,673	2,332,252	2,399,833	2,469,481			
Debt Service																										
Debt Service Part A				1,702,738	1,702,738	1,702,738	1,702,738	1,702,738	1,702,738	1,702,738	1,702,738	1,702,738	1,702,738	1,702,738	1,702,738	1,702,738	1,702,738	1,702,738	1,702,738	1,702,738	1,702,738	1,702,738	1,702,738			
Debt Service Conventional/Other Financing				0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0			
Total Expenses				3,140,433	3,196,986	3,236,400	3,276,287	3,317,767	3,363,664	3,410,932	3,459,616	3,509,761	3,561,413	3,614,619	3,669,431	3,725,898	3,784,073	3,844,013	3,905,772	3,969,411	4,034,989	4,102,570	4,172,219			
Cash Flow/(Deficit)				255,411	232,817	228,061	222,454	215,962	240,740	265,560	290,405	315,261	340,110	364,933	389,713	414,429	439,060	463,583	487,975	512,212	536,266	560,110	583,715			
Cash Flow Per Unit				1,659	1,512	1,481	1,445	1,402	1,563	1,724	1,886	2,047	2,209	2,370	2,531	2,691	2,851	3,010	3,169	3,328	3,482	3,637	3,790			
Debt Coverage Ratio on Part A Loan				1.15	1.14	1.13	1.13	1.13	1.14	1.16	1.17	1.19	1.20	1.21	1.23	1.24	1.26	1.27	1.29	1.30	1.31	1.33	1.34			
Debt Coverage Ratio on Conventional/Other Financing				N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
Interest Rate on Reserves				3%	Average Cash Flow as % of Net Income																					
Operating Deficit Reserve (ODR) Analysis																										
Maintained Debt Coverage Ratio (Hard Debt)	1.00																									
Maintained Operating Reserve (No Hard Debt)	250																									
Initial Balance	Initial Deposit			0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
Total Annual Draw to achieve 1.0 DCR				0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
Total Annual Deposit to achieve Maintained DCR				0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
Total 1.0 DCR and Maintained DCR				0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
Interest				0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
Ending Balance at Maintained DCR				0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
Maintained Cash Flow Per Unit				1,659	1,512	1,481	1,445	1,402	1,563	1,724	1,886	2,047	2,209	2,370	2,531	2,691	2,851	3,010	3,169	3,328	3,482	3,637	3,790			
Maintained Debt Coverage Ratio on Part A Loan				1.15	1.14	1.13	1.13	1.13	1.14	1.16	1.17	1.19	1.20	1.21	1.23	1.24	1.26	1.27	1.29	1.30	1.31	1.33	1.34			
Maintained Debt Coverage Ratio on Conventional/Other Standard ODR				0																						
Non-standard ODR				0																						
Operating Assurance Reserve Analysis																										
Initial Balance	Required in Year: 1			1,046,811																						
Interest Income				1,046,811	1,078,215	1,110,562	1,143,879	1,178,195	1,213,541	1,249,947	1,287,446	1,326,069	1,365,851	1,406,827	1,449,031	1,492,502	1,537,277	1,583,396	1,630,898	1,679,825	1,730,219	1,782,126	1,835,590			
Ending Balance				31,404	32,346	33,317	34,195	35,346	36,406	37,498	38,623	39,782	40,976	42,205	43,471	44,775	46,118	47,502	48,927	50,395	51,907	53,464	55,068			
Deferred Developer Fee Analysis																										
Initial Balance				2,086,824	1,831,413	1,598,597	1,370,536	1,148,082	932,120	691,380	425,821	135,415	0	0	0	0	0	0	0	0	0	0	0			
Dev Fee Paid				255,411	232,817	228,061	222,454	215,962	240,740	265,560	290,405	315,415	0	0	0	0	0	0	0	0	0	0	0			
Ending Balance	Repaid in year: 0			1,831,413	1,598,597	1,370,536	1,148,082	932,120	691,380	425,821	135,415	0	0	0	0	0	0	0	0	0	0	0	0			
Mortgage Resource Fund Loan																										
Interest Rate on Subordinate Financing	3%																									
Principal Amount of all MSHDA Soft Funds				1,476,946	1,476,946	1,476,946	1,476,946	1,476,946	1,476,946	1,476,946	1,476,946	1,476,946	1,476,946	1,476,946	1,476,946	1,476,946	1,476,946	1,476,946	1,476,946	1,476,946	1,476,946	1,476,946	1,476,946			
Current Yr Int				44,308	44,308	44,308	44,308	44,308	44,308	44,308	44,308	44,308	44,308	44,308	44,308	44,308	44,308	44,308	44,308	44,308	44,308	44,308	44,308			
Accrued Int				0	44,308	88,617	132,925	177,234	221,542	265,850	310,159	354,467	398,853	443,166	494,948	0	0	0	0	0	0	0	0			
Subtotal				1,521,254	1,565,563	1,609,871	1,654,180	1,698,488	1,742,796	1,787,105	1,831,413	1,875,721	1,930,177	1,974,361	2,020,202	2,067,896	2,117,430	2,169,826	2,224,074	2,279,182	2,335,150	2,392,000	2,449,748			
Annual Payment Due				0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0			
Year End Balance	50%			1,521,254	1,565,563	1,609,871	1,654,180	1,698,488	1,742,796	1,787,105	1,831,413	1,875,721	1,930,177	1,974,361	2,020,202	2,067,896	2,117,430	2,169,826	2,224,074	2,279,182	2,335,150	2,392,000	2,449,748			

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
RESOLUTION DETERMINING MORTGAGE LOAN FEASIBILITY
LOCKWOOD OF ANN ARBOR, MSHDA DEVELOPMENT NO. 3845
CITY OF ANN ARBOR, WASHTENAW COUNTY

August 2, 2021

WHEREAS, the Michigan State Housing Development Authority (the "Authority") is authorized under the provisions of Act No. 346 of the Public Acts of 1966 of the State of Michigan, as amended (the "Act"), to make mortgage loans to qualified non-profit housing corporations, consumer housing cooperatives and limited dividend housing corporations and associations; and

WHEREAS, an Application for Mortgage Loan Feasibility has been filed with the Authority by Lockwood Development Company LLC (the "Applicant") for a multifamily housing project to be located in the City of Ann Arbor, Washtenaw County, Michigan, having a total estimated replacement cost of Forty-Four Million Seven Hundred Thirty-Five Thousand Three Hundred Sixty-Six Dollars (\$44,735,366), a total estimated maximum mortgage loan amount of Thirty-Four Million Two Hundred Five Thousand One Hundred Eighty-Nine Dollars (\$34,205,189) and a Mortgage Resource Fund loan in the amount of One Million Four Hundred Seventy-Six Thousand Nine Hundred Forty-Six Dollars (\$1,476,946) (hereinafter referred to as the "Application"); and

WHEREAS, a housing association to be formed by the Applicant may become eligible to receive a Mortgage Loan from the Authority under the provisions of the Act and the Authority's General Rules; and

WHEREAS, the Acting Executive Director has forwarded to the Authority his analysis of the Application and his recommendations with respect thereto; and

WHEREAS, the Authority has considered the Application in the light of the Authority's project mortgage loan feasibility evaluation factors.

NOW, THEREFORE, Be It Resolved by the Michigan State Housing Development Authority as follows:

1. The following determinations be and they hereby are made:
 - a. The proposed housing project will provide housing for persons of low and moderate income and will serve and improve the residential area in which Authority-financed housing is located or is planned to be located, thereby enhancing the viability of such housing.
 - b. The Applicant is reasonably expected to be able to achieve successful completion of the proposed housing project.
 - c. The proposed housing project will meet a social need in the area in which it is to be located.

- d. A mortgage loan, or a mortgage loan not made by the Authority that is a federally-aided mortgage, can reasonably be anticipated to be obtained to provide financing for the proposed housing project.
- e. The proposed housing project is a feasible housing project.
- f. The Authority expects to allocate to the financing of the proposed housing project proceeds of its bonds issued or to be issued for multifamily housing projects a maximum principal amount not to exceed Thirty-Nine Million Nine Hundred Seventy-Seven Thousand Six Hundred Forty Dollars (\$39,977,640).

2. The proposed housing project be and it is hereby determined to be feasible for a mortgage loan on the terms and conditions set forth in the Mortgage Loan Feasibility/Commitment Report of the Authority Staff presented to the meeting, subject to any and all applicable determinations and evaluations issued or made with respect to the proposed housing project by other governmental agencies or instrumentalities or other entities concerning the effects of the proposed housing project on the environment as evaluated pursuant to the federal National Environmental Policy Act of 1969, as amended, and the regulations issued pursuant thereto as set forth in 24 CFR Part 58.

3. The determination of feasibility is based on the information obtained from the Applicant and the assumption that all factors necessary for the successful construction and operation of the proposed project shall not change in any materially adverse respect prior to the closing. If the information provided by the Applicant is discovered to be materially inaccurate or misleading, or any factors necessary for the successful construction and operation of the proposed project change in any materially adverse respect, this feasibility determination resolution may, at the option of the Executive Director, the Chief Housing Investment Officer, the Director of Legal Affairs, the Deputy Director of Legal Affairs, the Chief Financial Officer, the Deputy Director of Finance or any person duly authorized to act in any of the foregoing capacities (each an "Authorized Officer"), be immediately rescinded.

4. Neither this determination of feasibility nor the execution prior to closing of any documents requested to facilitate processing of a proposed mortgage loan to be used in connection therewith constitutes a promise or covenant by the Authority that it will make a Mortgage Loan to the Applicant.

5. This determination of Mortgage Loan Feasibility is conditioned upon the availability of financing to the Authority. The Authority does not covenant that funds are or will be available for the financing of the subject proposed housing development.

6. This Determination of Mortgage Loan Feasibility confirms the Authority's intent that the proceeds of the proposed mortgage loan will be used to repay the third-party construction loan described in the Mortgage Loan Feasibility/Commitment Staff Report dated August 2, 2021 ("Mortgage Loan Feasibility/Commitment Staff Report").

7. The Mortgage Loan Feasibility determination is subject to the conditions set forth in the Mortgage Loan Feasibility/Commitment Staff Report, which conditions are hereby incorporated by reference as if fully set forth herein.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
RESOLUTION AUTHORIZING MORTGAGE LOAN
LOCKWOOD OF ANN ARBOR, MSHDA DEVELOPMENT NO. 3845
CITY OF ANN ARBOR, WASHTENAW COUNTY

August 2, 2021

WHEREAS, the Michigan State Housing Development Authority (the "Authority") is authorized, under the provisions of Act No. 346 of the Public Acts of 1966 of the State of Michigan, as amended (hereinafter referred to as the "Act"), to make mortgage loans to qualified nonprofit housing corporations, consumer housing cooperatives, limited dividend housing corporations and associations and certain qualified individuals; and

WHEREAS, an application (the "Application") has been filed with the Authority by Lockwood Development Company LLC (the "Applicant") for a construction and permanent mortgage loan in the amount of Thirty-Four Million Two Hundred Five Thousand One Hundred Eighty-Nine Dollars (\$34,205,189) and a Mortgage Resource Fund ("MRF") Loan in the estimated amount of One Million Four Hundred Seventy-Six Thousand Nine Hundred Forty-Six Dollars (\$1,476,946) (the "MRF Loan", and together with the Mortgage Loan, the "Mortgage Loans"), for the construction and permanent financing of a multi-family housing project having an estimated total development cost of Forty-Four Million Seven Hundred Thirty-Five Thousand Three Hundred Sixty-Six Dollars (\$44,735,366), to be known as Lockwood of Ann Arbor, located in the City of Ann Arbor, Washtenaw County, Michigan, and to be owned by Lockwood of Ann Arbor Limited Dividend Housing Association Limited Partnership (the "Mortgagor"); and

WHEREAS, the Acting Executive Director has forwarded to the Authority his analysis of the Application and his recommendation with respect thereto; and

WHEREAS, the Authority has reviewed the Application and the recommendation of the Executive Director and, on the basis of the Application and recommendation, has made determinations that:

- (a) The Mortgagor is an eligible applicant;
- (b) The proposed housing project will provide housing for persons of low and moderate income and will serve and improve the residential area in which Authority-financed housing is located or is planned to be located thereby enhancing the viability of such housing;
- (c) The Applicant and the Mortgagor are reasonably expected to be able to achieve successful completion of the proposed housing project;
- (d) The proposed housing project will meet a social need in the area in which it is to be located;
- (e) The proposed housing project may reasonably be expected to be marketed successfully;

- (f) All elements of the proposed housing project have been established in a manner consistent with the Authority's evaluation factors, except as otherwise provided herein;
- (g) The construction or rehabilitation will be undertaken in an economical manner and it will not be of elaborate design or materials; and
- (h) In light of the estimated total project cost of the proposed housing project, the amount of the mortgage loan authorized hereby is consistent with the requirements of the Act as to the maximum limitation on the ratio of mortgage loan amount to estimated total project cost.

WHEREAS, the Authority has considered the Application in the light of the criteria established for the determination of priorities pursuant to General Rule 125.145 and hereby determines that the proposed housing project is consistent therewith; and

WHEREAS, Sections 83 and 93 of the Act provide that the Authority shall determine a reasonable and proper rate of return to limited dividend housing corporations and associations on their investment in Authority-financed housing projects.

NOW, THEREFORE, Be It Resolved by the Michigan State Housing Development Authority as follows:

1. The Application be and it hereby is approved, subject to the terms and conditions of this Resolution, the Act, the General Rules of the Authority, and of the Mortgage Loan Commitment hereinafter authorized to be issued to the Applicant and the Mortgagor.

2. A mortgage loan (the "Mortgage Loan") be and it hereby is authorized and the Executive Director, the Chief Housing Investment Officer, the Director of Legal Affairs, the Deputy Director of Legal Affairs, the Chief Financial Officer, the Deputy Director of Finance or any person duly authorized to act in any of the foregoing capacities, or any one of them acting alone (each an "Authorized Officer"), are hereby authorized to issue to the Applicant and the Mortgagor the Authority's Mortgage Loan Commitment (the "Commitment") for the construction and permanent financing of the proposed housing project, in an amount not to exceed Thirty-Four Million Two Hundred Five Thousand One Hundred Eighty-Nine Dollars (\$34,205,189), and to have a term of 40 years after amortization of principal commences and to bear interest at a rate of three and 95/100 percent (3.95%) per annum. The amount of proceeds of tax exempt bonds issued or to be issued and allocated to the financing of this housing project shall not exceed Thirty-Nine Million Nine Hundred Seventy-Seven Thousand Six Hundred Forty Dollars (\$39,977,640). Any Authorized Officer is hereby authorized to modify or waive any condition or provision contained in the Commitment.

3. The MRF Loan be and it hereby is authorized and an Authorized Officer is hereby authorized to issue to the Applicant and the Mortgagor a commitment for a MRF Loan (together with the Commitment for the Mortgage Loan, the "Mortgage Loan Commitment") in the estimated amount of One Million Four Hundred Seventy-Six Thousand Nine Hundred Forty-Six Dollars (\$1,476,946), and to have a term not to exceed fifty (50) years and to bear interest at a rate of three percent (3%) per annum.

4. The mortgage loan commitment resolution and issuance of the Mortgage Loan Commitment are based on the information obtained from the Applicant and the assumption that all

factors necessary for the successful construction and operation of the proposed project shall not change in any materially adverse respect prior to the closing. If the information provided by the Applicant is discovered to be materially inaccurate or misleading, or any factors necessary for the successful construction and operation of the proposed project change in any materially adverse respect, this mortgage loan commitment resolution together with the commitment issued pursuant hereto may, at the option of an Authorized Officer, be rescinded.

5. Notwithstanding passage of this resolution or execution of any documents in anticipation of the closing of the proposed mortgage loan, no contractual rights to receive the mortgage loan authorized herein shall arise unless and until an Authorized Officer shall have issued a Mortgage Loan Commitment and the Applicant shall have agreed in writing within fifteen days after receipt thereof, to the terms and conditions contained therein.

6. The proposed housing project be and it hereby is granted a priority with respect to proceeds from the sale of Authority securities which are determined by the Executive Director to be available for financing the construction and permanent loans of the proposed housing project. Availability of funds is subject to the Authority's ability to sell bonds at a rate or rates of interest and at a sufficient length of maturity so as not to render the permanent financing of the development unfeasible.

7. In accordance with Section 93(b) of the Act, the maximum reasonable and proper rate of return on the investment of the Mortgagor in the housing project be and it hereby is determined to be twelve percent (12%) per annum initially. Following the payment in full of the MRF Loan, the Mortgagor's rate of return may be increased by one percent (1%) annually until a cap of twenty-five percent (25%) is reached.

8. The Authority hereby waives Section II.B.2(f) of the Multifamily Direct Lending Parameters adopted on June 28, 2017, deferring payments on the MRF Loan until payment of deferred developer fee.

9. The Authority hereby waives Section VI.A of the Multifamily Direct Lending Parameters adopted on June 28, 2017, requiring for underwriting purposes, on all new construction or acquisition-rehab transactions, that the debt coverage ratio be at 1.2.

10. The Authority hereby waives Section VI.K(1) of the Multifamily Direct Lending Parameters adopted on June 28, 2017, requiring the funding of the Operating Assurance Reserve at the construction loan closing.

11. The Mortgage Loan shall be subject to, and the Commitment shall contain, the conditions set forth in the Mortgage Loan Feasibility/Commitment Staff Report dated August 2, 2021, which conditions are hereby incorporated by reference as if fully set forth herein.



MSHDA

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

M E M O R A N D U M

TO: Authority Members

FROM: Gary Heidel, Acting Executive Director

DATE: August 2, 2021

RE: Pinehurst Townhomes, Development No. 955-2

Gary Heidel

RECOMMENDATION:

I recommend that the Michigan State Housing Development Authority (the "Authority") adopt resolutions that 1) determine Mortgage Loan Feasibility as to the following proposal, 2) authorize the sale of the property, 3) authorize the prepayment of the existing mortgage loan, 4) authorize a tax-exempt bond mortgage loan and assumption of the Mortgage Resource Fund ("MRF") mortgage loan in the amounts set forth in this report, 5) authorize waivers of certain Multifamily Direct Lending Parameters concerning a payment in lieu of taxes ("PILOT") and a Debt Coverage Ratio of 1.15 (as opposed to 1.2) and the assumption of existing secondary financing in preservation transactions, 6) authorize an amendment or change to the current rent and income restrictions, 7) authorize waive of prepayment penalty fees required under 2015 Workout Agreement, and 8) authorize the Executive Director, or an Authorized Officer of the Authority, to issue the Authority's Mortgage Loan Commitment with respect to this development, subject to the terms and conditions set forth in this report.

PROJECT SUMMARY:

MSHDA No:	955-2
Development Name:	Pinehurst Townhomes
Development Location:	Township of Oshtemo, Kalamazoo County, Michigan
Sponsor:	Full Circle Communities, Inc.
Mortgagor:	Pinehurst Preservation Limited Dividend Housing Association Limited Partnership
Number of Units (Affordable and Market Rate):	97 family units of rehabilitation (96 multifamily townhome units and a manager's unit)
Total Development Cost:	\$13,706,684
TE Bond Construction Loan:	\$ 9,015,000
TE Bond Permanent Loan:	\$ 6,995,161
MSHDA Gap Funds (Assumed HOME and MRF Loan):	\$ 1,575,007
Other Funds: 4% LIHTC Equity	\$ 3,874,784

Other Funds: 4% LIHTC Equity	\$ 3,874,784
Income from Operations	\$ 392,721
Sponsor Loan	\$ 276,353
Transferred Reserves	\$ 24,232
Deferred Developer Fee	\$ 568,426

EXECUTIVE SUMMARY:

Pinehurst Townhomes (the “Development”) is an existing Authority-financed development located in the Township of Oshtemo, Kalamazoo County, Michigan, that was built in 1997. The Development features 96 multifamily townhome units and a manager’s unit. The site has 12 two-story townhome buildings and a 2-story community building, which includes the rental office and computer lab, on approximately 14.28 acres. The proposed income mix is made up of 10 units at 30% of area median income (“AMI”), 14 units at 40% of AMI, 57 units at 50% of AMI (including 15 Project Based Voucher units at 50% of AMI provided by the Authority), 15 units at 60% of AMI and the manager’s unit. The Authority currently provides 10 Section 8-vouchers, and the owner is planning on applying for 5 more vouchers once the gap funding application has been approved or the 4% Low Income Housing Tax Credits (“LIHTC”) are awarded.

The core mission of the Development’s current owner, Housing Resources, Inc. (“HRI”), is providing supportive services. HRI is the Housing Assessment and Resource Agency for Kalamazoo County, and one of the largest recipients of Continuum of Care funds. The Sponsor, Full Circle Communities, Inc. (“FCC”), was approached by HRI in 2017 to consider the acquisition of the Development based on their relationship as a service provider at Selinon Park (MSHDA Project # H17013). FCC and HRI share the goal of maintaining the Development as affordable housing for current and future tenants. HRI will continue as a team partner in a service provider role, providing social services to families residing at the Development.

I am recommending Board approval for the following reasons:

- The Development’s affordability will be extended for 40 to 50 years for all units.
- All units will be refurbished to meet the physical needs of the Development.
- All units, except the manager’s unit, will be available to low-income families whose incomes do not exceed 60% of AMI.

ADVANCING THE AUTHORITY’S MISSION:

- The Development preserves 96 units of affordable housing for families.
- Financing the Development results in an earning asset for the Authority.

MUNICIPAL SUPPORT:

- The Township of Oshtemo has provided a 4% PILOT. The Sponsor is working with the Township to update the PILOT with the required Authority PILOT ordinance language and to extend the PILOT to the term of the new mortgage loan period.

COMMUNITY ENGAGEMENT/IMPACT:

- The affordability period for these units ranges from 40 to 50 years, depending on the funding source.
- The Sponsor will continue to partner with the Housing Assessment and Resource Agency for Kalamazoo County to provide social services to families.

RESIDENT IMPACT:

- Tenants will not be displaced as a result of the rehabilitation.
- Tenants will benefit from the upgraded units.
- The preservation and renovation of the Development will result in a rent increase for many existing tenants. A rent subsidy reserve is being established to protect these tenants against an increase in rent for an estimated 6-year period following the date of closing.
- The 15 units converting from 50% of AMI to 60% of AMI will not be converted until the current tenants move out or are evicted for cause.

ISSUES, POLICY CONSIDERATIONS, AND RELATED ACTIONS:

The Sponsor is requesting, and I am recommending, a waiver of the prepayment penalty fees required under a 2015 workout agreement. The prepayment penalty fees are estimated to be \$418,662, including lost spread.

The Authority approved a workout plan for the Development in September 2015 which included an Authority preservation loan of \$500,000. The funds were lent to the owner for replacement of all the hot water heaters and furnaces on site because the hot water heaters and furnaces were found to be a safety hazard by the Kalamazoo Fire Marshall after citing 4-unit fires over a 5-year period. The Fire Marshall required that all hot water heaters and furnaces be replaced, or the Development would be condemned.

Because the economics of the deal will not generate sufficient funds to cover the prepayment penalty fees, the Sponsor is requesting a waiver of the prepayment penalty fees.

The Sponsor is also requesting that the outstanding HOME and MRF Loans be allowed to be assumed by the Mortgagor. The HOME Loan's compliance period ended in December 2020, and the loan has an outstanding balance of \$1,075,007. The MRF Loan carries a \$500,000 balance. The HOME Loan was put into the deal during initial underwriting, and the MRF Loan was awarded in 2015--both were set up to be repaid through cash flow. There has not been any cash flow from this deal since 2013 due to the Development having more than \$2 million in unmet replacement reserve needs. Unmet replacement reserve needs are subtracted from cash flow in order to determine funds available for distribution.

According to the 2019 financial audit the current repayment terms for the HOME and MRF Loans are as follows:

- "Second Mortgage – MSHDA HOME loan, deferred until the first mortgage is paid in full. Upon repayment it will bear [an] interest rate of 8.5%. So long as the first mortgage is outstanding, annual principal payments are required on the HOME loan equal to 25% of surplus funds. Final maturity [is] August 2056. The HOME loan is secured by the first mortgage."
- "MSHDA Mortgage Resource Fund note, principal and interest at 3.0% are payable

annually on April 30. Mortgagor shall make annual payments equal to 100% of surplus cash. All outstanding principal and interest are due and payable on the original maturity date of the First Mortgage Loan. Loan Maturity [is] set to [a] permanent loan maturity date of October 2023.”

The terms for these assumed loans will be extended to 50 years and the interest rate for the assumed HOME Loan will be reduced to 1%; however, repayment will not begin until all annual surplus funds available for distribution equals or exceeds the amount of the deferred developer fee or the 13th year following the date that Mortgage Loan amortization commences, whichever is earlier.

The Development has not generated surplus funds for distribution in many years due to having approximately \$2 million in unmet replacement reserve needs. Staff has conducted a comprehensive needs assessment for this proposal and established an initial replacement reserve of \$630,790. The reserve combined with nearly \$5.8 million in rehabilitation work planned should resolve the unmet replacement reserve needs.

The Development will require a waiver of the following Authority Multifamily Direct Lending Parameter concerning a PILOT (as provided for in Section VI.I.2) conditioned on the PILOT being found acceptable prior to the Authority’s disbursement of any funds:

- Proposals that do not include an approved PILOT arrangement will be underwritten based on the ad valorem taxes applicable to the property.
- For a proposal to be underwritten on the basis of a PILOT, the PILOT must be approved prior to Authority Board consideration.

As noted above, the Sponsor is working with the Township to update the PILOT with the required Authority PILOT ordinance language and to extend the PILOT to the term of the new mortgage loan period. An acceptable PILOT is required before closing and disbursement of funds.

The Development will also require a waiver of Section VI.A is required to allow a Debt Coverage of 1.15 on new construction or acquisition/rehabilitation as opposed to 1.2.

The Development will also require a waiver of the following Authority Multifamily Direct Lending Parameter (as set forth in Section VIII.A), which prohibits the assumption of existing secondary financing in preservation transactions:

- For MSHDA preservation transactions, all repayable subsidy loans, deferred interest, HOME loans, or other secondary financing, such as small size, security, and amenity loans, are to be repaid at initial closing of the new mortgage loan.
- Assumption of these loans is not anticipated, nor is further secondary financing generally available to address this indebtedness.

The Development will also require an amendment or change to the current income and rent restrictions. Currently, 10% of the units are restricted to 30% of AMI, 20% of the units at 40% of AMI and 70% of the units at 50% of AMI. The updated mix will be approximately 10% of the units at 30% of AMI, 20% of the units at 40% of AMI, 60% of the units at 50% of AMI and 10% of the units at 60% of AMI. The 15 units converting from 50% to 60% of AMI will not be converted until the current tenants move out or are evicted for cause.



MORTGAGE LOAN FEASIBILITY/COMMITMENT STAFF REPORT

August 2, 2021

RECOMMENDATION:

I recommend that the Michigan State Housing Development Authority (the "Authority") adopt resolutions that 1) determine Mortgage Loan Feasibility as to the following proposal, 2) authorize the sale of the property, 3) authorize the prepayment of the existing mortgage loan, 4) authorize tax-exempt bond and assumption of the Mortgage Resource Fund ("MRF") mortgage loans in the amounts set forth in this report, 5) authorize waivers of certain Multifamily Direct Lending Parameters concerning a payment in lieu of taxes ("PILOT"), and a Debt Coverage Ratio of 1.15 (as opposed to 1.2) and the assumption of existing secondary financing in preservation transactions, 6) authorize an amendment or change to the current rent and income restrictions, 7) authorize a waiver of the prepayment penalty fees under the 2015 Workout Agreement and 8) authorize the Executive Director, or an Authorized Officer of the Authority, to issue the Authority's Mortgage Loan Commitment with respect to this development, subject to the terms and conditions set forth in this report.

<u>MSHDA No.:</u>	955-2
<u>Development Name:</u>	Pinehurst Townhomes
<u>Development Location:</u>	Township of Oshtemo, Kalamazoo County, Michigan
<u>Sponsor:</u>	Full Circle Communities, Inc.
<u>Mortgagor:</u>	Pinehurst Preservation Limited Dividend Housing Association Limited Partnership
<u>TE Bond Construction:</u>	\$9,015,000
<u>TE Bond Permanent Loan:</u>	\$6,995,161
<u>MSHDA Assumed HOME Loan:</u>	\$1,075,007
<u>MSHDA Assumed MRF Loan:</u>	\$500,000
<u>Total Development Cost:</u>	\$13,706,684
<u>Mortgage Term:</u>	40 years for the tax-exempt bond loan; 50 years for the HOME loan; 50 years for the MRF loan;
<u>Interest Rate:</u>	3.95% for the tax-exempt bond loan; 1% simple interest for the HOME loan and 3% simple interest for the MRF loan
<u>Program:</u>	Tax-Exempt Bond and Gap Financing Programs
<u>Number of Units:</u>	97 family units of rehabilitation (96 multifamily townhome units and a manager's unit)
<u>Unit Configuration:</u>	59 Two Bedroom and 38 Three Bedroom Townhomes
<u>Builder:</u>	Wolverine Building Group
<u>Syndicator:</u>	National Equity Fund
<u>Date Application Received:</u>	February 15, 2020
<u>HDO:</u>	Charles Smith

Issuance of the Authority's Mortgage Loan Commitment is subject to fulfillment of all Authority

processing and review requirements and obtaining all necessary staff approvals as required by the Authority's underwriting standards.

ISSUES, POLICY CONSIDERATIONS AND RELATED ACTIONS:

Full Circle Communities, Inc. (the "Sponsor") is requesting and staff is recommending a waiver of the prepayment penalty fees required under a 2015 workout agreement. The prepayment penalty fees are estimated to be \$418,662.

The Authority approved a workout plan for Pinehurst Townhomes (the "Development") in September 2015 which included an Authority preservation loan of \$500,000. The funds were lent to the owner for replacement of all the hot water heaters and furnaces on site because the hot water heaters and furnaces were found to be a safety hazard by the Kalamazoo Fire Marshall after citing 4-unit fires over a 5-year period. The Fire Marshall required that all hot water heaters and furnaces be replaced, or the community would be condemned.

The First Amendment to Mortgage Note, dated October 13, 2015, prescribed prepayment penalties of the original mortgage note as follows:

- Prohibited to prepay mortgage prior to October 1, 2033;
- Prepayment penalty set to 3% of payoff balance;
- Prepayment penalty would be reduced .0015% per year, beginning October 15, 2014; and
- Any bond call premium, prepayment or swap penalty, or any other cost that the Authority incurs to prepay the bonds or notes that were used to fund the Mortgage Loan will be paid by the Mortgagor.

The prepayment penalty as calculated by the Authority's Finance Division estimates the following penalties:

- | | |
|----------------------------|------------------|
| 1. Loss of spread..... | \$389,252 |
| 2. Prepayment penalty..... | <u>\$29,410</u> |
| | \$418,662 |

Because the economics of the deal will not generate sufficient funds to cover the prepayment penalty fees, the Sponsor is requesting that these fees be waived.

The Sponsor is also requesting that the outstanding HOME and MRF Loans be allowed to be assumed by the Mortgagor and has requested a waiver of the Authority Multifamily Direct Lending Parameter (as set forth in Section VIII.A) that prohibits the assumption of existing secondary financing in preservation transactions.

The HOME Loan's compliance period ended in January 2021 and has an outstanding balance of \$1,075,007. The MRF Loan carries a \$500,000 balance. The HOME Loan was put into the deal during initial underwriting and the MRF Loan was awarded in 2015, and both were set up to be repaid through cash flow. There has not been any cash flow from this deal since 2013 due to the Development having more than \$2 million in unmet replacement reserve needs. Unmet replacement reserve needs are subtracted from cash flow in order to determine funds available for distribution.

**Mortgage Feasibility/Commitment Staff Report
Pinehurst Townhomes, MSHDA No. 955-2
Township of Oshtemo, Kalamazoo County
8/2/21**

According to the 2019 financial audit, the current repayment terms for the Home and MRF Loans are as follows:

- “Second Mortgage – MSHDA HOME loan, deferred until the first mortgage is paid in full. Upon repayment it will bear [an] interest rate of 8.5%. So long as the first mortgage is outstanding, annual principal payments are required on the HOME loan equal to 25% of surplus funds. Final maturity [is] August 2056. The HOME loan is secured by the first mortgage.”
- “MSHDA Mortgage Resource Fund note, principal and interest at 3.0% are payable annually on April 30. Mortgagor shall make annual payments equal to 100% of surplus cash. All outstanding principal and interest are due and payable on the original maturity date of the First Mortgage Loan. Loan Maturity [is] set to [a] permanent loan maturity date of October 2023.”

The terms for these assumed loans will be extended to 50 years and the interest rate for the assumed HOME Loan will be reduced to 1%; however, repayment will not begin until all annual surplus funds available for distribution equals or exceeds the amount of the deferred developer fee or the 13th year following the date that Mortgage Loan amortization commences, whichever is earlier.

The Development has not generated surplus funds for distribution in many years due to having approximately \$2 million in unmet Replacement Reserve Needs. Staff has conducted a comprehensive needs assessment for this proposal and established an initial replacement reserve of \$630,790. The reserve combined with nearly \$5.8 million in rehabilitation work planned will resolve the unmet replacement reserve needs.

The Development will require a waiver of the Authority Multifamily Direct Lending Parameters concerning a PILOT (as provided for in Section VI.I.2) conditioned on the PILOT being found acceptable prior to the Authority’s disbursement of any funds.

The Development will also require a waiver of Section VI.A is required to allow a Debt Coverage of 1.15 on new construction or acquisition/rehabilitation as opposed to 1.2.

The Development will also require an amendment or change to the current income and rent restrictions. Currently, 10% of the units are restricted to 30% of AMI, 20% of the units at 40% of AMI and 70% of the units at 50% of AMI. The updated mix will be approximately 10% of the units at 30% of AMI, 20% of the units at 40% of AMI, 60% of the units at 50% of AMI and 10% of the units at 60% of AMI. The 15 units converting from 50% to 60% of AMI will not be converted until the current tenant moves out or is evicted for cause.

EXECUTIVE SUMMARY:

The Development is an existing Authority-financed development located in the Township of Oshtemo, Kalamazoo County, Michigan, that was built in 1997. The Development features 96 multifamily townhome units and a manager’s unit. The site has 12 two-story townhome buildings and a 2-story community building, which includes the rental office and computer lab, on approximately 14.28 acres. The proposed income mix is made up of 10 units at 30% of area median income (“AMI”), 14 units at 40% of AMI, 57 units at 50% of AMI (including 15 Project Based Voucher units at 50% of AMI provided by the Authority) and 15 units at 60% of AMI and the

manager's unit. The Authority currently provides 10 Section 8 vouchers, and the owners are planning on applying for 5 more vouchers once the gap funding application has been approved or the 4% Low Income Housing Tax Credits ("LIHTC") are awarded.

The core mission of the Development's current owner, Housing Resources, Inc. ("HRI"), is providing supportive services. HRI is the Housing Assessment and Resource Agency for Kalamazoo County, and one of the largest recipients of Continuum of Care funds. The Sponsor, Full Circle Communities, Inc. ("FCC"), was approached by HRI in 2017 to consider the acquisition of the Development based on their relationship as a service provider at Selinon Park (MSHDA Project # H17013). FCC and HRI share the goal of maintaining the Development as affordable housing for current and future tenants. HRI will continue as a team partner in a service provider role, providing social services to families residing at the Development.

Structure of the Transaction and Funding:

There are several elements to this transaction that are common to preservation transactions:

- A tax-exempt bond construction loan and a permanent mortgage loan will be provided by the Authority (the "Mortgage Loan"). The construction loan will be in the amount of \$9,015,000 at 3.95% interest with a 12-month term (a 9-month construction term and a 3-month holding period), which will be used to bridge an extended equity pay-in period. Interest only payments will be required under the construction loan. The amount by which the construction loan exceeds the permanent loan will be due on the first day of the month following the month in which the 12-month construction loan term expires or such later date determined by an Authorized Officer of the Authority (the "Permanent Financing Date").
- A permanent loan will be provided by the Authority in the amount of \$6,995,161. The permanent loan is based upon the current rents, less vacancy loss, payments to reserves and escrows, operating costs based on historical data unless modified by project improvements and construction and soft costs at levels appropriate for this specific transaction. The permanent loan includes a 1.15 debt service coverage ratio, an annual interest rate of 3.95%, with a fully amortizing term of 40 years commencing on the Permanent Financing Date. The Mortgage Loan will be funded on the Permanent Financing Date and will be in **First Position**.
- An existing Authority MRF loan of \$500,000 will be assumed by Mortgagor with payments initially deferred. This Assumed Loan will be provided at 3% simple interest with payments initially deferred and will be in **Second Position**.
- An Existing Authority HOME Loan of \$1,075,007 will be assumed by Mortgagor with payments initially deferred. The HOME compliance period ended in December 2020. This Assumed Loan will be provided at 1% simple interest with payments initially deferred and will be in **Third Position**.
- Equity support comes from an investment related to the 4% LIHTC in the estimate amount of \$3,874,784.
- The Authority is providing 10 project-based vouchers ("PBVs") from the Authority's Housing Choice Voucher program. The Housing Assistance Payment ("HAP") contract will be for an

**Mortgage Feasibility/Commitment Staff Report
Pinehurst Townhomes, MSHDA No. 955-2
Township of Oshtemo, Kalamazoo County
8/2/21**

initial term of 15 years with up to three 5-year extensions possible. The Sponsor will request an additional 5 vouchers after receiving a 4% LIHTC award or gap loan approval.

- Income from operations will be used as a source of funding to make the interest only payments and the tax and insurance payments during the construction period in the amount of \$392,721.
- The Sponsor has agreed to defer \$568,426 of the developer fee to help fill the remaining funding gap.
- An amount equal to one month's gross rent potential ("GRP") will be funded in the Development's operating account.
- An operating assurance reserve ("OAR") will be required in the amount identified in the attached proforma. The reserve will be capitalized at closing in an amount which, along with accumulated interest, is expected to meet the Development's unanticipated operating needs. This reserve will be held by the Authority.
- A syndicator reserve in the amount of \$138,738 is required by the equity investor for additional operational needs. This reserve will be deposited in the Authority-held OAR upon conversion to the permanent loan.
- The Development will be renovated and a new replacement reserve requirement imposed, based upon a capital needs assessment ("CNA"), to ensure an extension of the useful life of the property and to maintain an excellent quality of life for the residents. At the closing, the Mortgagor must deposit the amount determined necessary to satisfy the requirements of the Authority-approved CNA over a 20-year period. This reserve will be held by the Authority.
- Tax and insurance escrow proceeds in the amount identified in the attached proforma will be transferred from the existing project to the new project to fund a new tax and insurance escrow account.
- A rent subsidy reserve will be established to subsidize the rents of all current tenants affected by rent increases. The rent subsidy reserve is expected to help transition current tenants whose rents could otherwise increase as part of this transaction. This reserve will be capitalized at closing and will be held by the Authority. See Special Condition No. 2.
- The Sponsor will also be receiving an equity bridge loan in the amount of \$500,000 from CORE, an MHT affiliate, which will be repaid by equity installments.
- The Sponsor will also provide a sponsor loan in the amount of \$276,353.

Scope of Rehabilitation:

The following improvements to the property are included in the Scope of Work:

- Resurfacing the asphalt drive and parking areas.
- Updated kitchens, bathrooms and flooring.
- Clubhouse upgrades for the community kitchen, entertainment space, and computer lab and

office space added for social services staff.

- Roof replacements.
- New siding and gutters.
- New windows.
- New doors.
- Adding ADA accessible ramps and paths in the parking lot, and to the recreational spaces.
- Energy star rated appliances.
- Energy star water fixtures.

Affordability Requirements:

The Authority's tax-exempt bond regulatory agreement will require that all dwelling units in the property remain occupied by households with incomes at or below 60% of the Multifamily Tax Subsidy Project ("MTSP") income limit, adjusted for family size. The number of restricted units is controlled by the number of eligible households in place at closing, estimated to be 100% of the units.

Protections for Existing Residents:

The preservation and renovation of the Development will result in a rent increase for many existing tenants. A rent subsidy reserve is being established to protect these tenants against an increase in rent for an estimated 6-year period following the date of closing; thereafter, the tenants will be responsible for their full rent payment. See Special Condition No. 2.

Site Selection:

The site has been vetted by Authority Staff, and the Authority's Manager of the Office of Market Research has indicated that the site meets the Authority's current site selection criteria.

Market Evaluation:

The unit mix as well as the amenities package and rent levels have been approved by the Manager of the Office of Market Research.

Valuation of the Property:

An appraisal dated June 17, 2020, estimates the value at \$3,365,000.

CONDITIONS:

At or prior to (i) issuance of the Authority's mortgage loan commitment ("Mortgage Loan Commitment"), (ii) the initial Mortgage Loan Closing (the "Initial Closing"), or (iii) such other date as may be specified herein, the new Mortgagor, the existing Mortgagor (Pinehurst Limited Dividend Housing Association Limited Partnership, the "Seller") and other members of the Development team, where appropriate, must satisfy each of the following conditions by entering into a written agreement or providing documentation acceptable to the Authority:

Standard Conditions:

1. Limitation for Return on Equity:

For each year of the Development's operation, beginning in the year in which the Mortgage Cut-Off Date occurs, payments are limited to 12% of the Mortgagor's equity. For purposes of distributions, the Mortgagor's equity will be the sum of (i) the LIHTC equity; (ii) the brownfield tax credit equity; (iii) the historic tax credit equity; (iv) general partner capital contributions; and (v) any interest earned on an equity escrow held by the Authority (estimated to be a total of \$3,874,784). All such payments shall be referred to as "Limited Dividend Payments". The Mortgagor's return shall be fully cumulative. Limited Dividend Payments shall be capped at 12% per annum, until the MRF Loan and the HOME Loan have been repaid. Thereafter, Limited Dividend Payments may increase 1% per annum until a cap of 25% per annum is reached.

2. Income Limits:

The income limitations for 97 units of this proposal are as follows:

- a. 10 units (6 two-bedroom and 4 three-bedroom units) must be available for occupancy by households whose incomes do not exceed 30% MTSP income limits, adjusted for family size, until latest of (i) the expiration of the LIHTC "Extended Use Period" as defined in the Development's LIHTC Regulatory Agreement; (ii) 50 years from Initial Closing; or (iii) so long as any Authority loan remains outstanding.
- b. 14 units (9 two-bedroom and 5 three-bedroom units) must be available for occupancy by households whose incomes do not exceed 40% MTSP income limits, adjusted for family size, until latest of (i) the expiration of the LIHTC "Extended Use Period" as defined in the Development's LIHTC Regulatory Agreement; (ii) 50 years from Initial Closing; or (iii) so long as any Authority loan remains outstanding.
- c. 57 units (36 two-bedroom and 21 three-bedroom units) must be available for occupancy by households whose incomes do not exceed 50% MTSP income limits, adjusted for family size, until latest of (i) the expiration of the LIHTC "Extended Use Period" as defined in the Development's LIHTC Regulatory Agreement; (ii) 50 years from Initial Closing; or (iii) so long as any Authority loan remains outstanding.
- d. 15 units (7 two-bedroom and 8 three-bedroom units) must be available for occupancy by households whose incomes do not exceed 60% MTSP income limits, adjusted for family size, until latest of (i) the expiration of the LIHTC "Extended Use Period" as defined in the Development's LIHTC Regulatory Agreement; (ii) 50 years from Initial Closing; or (iii) so long as any Authority loan remains outstanding.
- e. 15 units (8 one-bedroom units and 7 two-bedroom units) must be occupied or available for occupancy by households whose incomes do not exceed the income limits in the HAP Contract for so long as the HAP Contract between the Mortgagor and the Authority is in effect (including extensions and renewals), or for such longer period as determined by HUD.
- f. 1 unit (2-bedroom unit) will be used as a manager's unit. If this unit is later converted to rental use, it must be available for occupancy by households whose incomes do not exceed 60% of area median income based upon the MTSP limits,

adjusted for family size as determined by HUD.

10 units will continue to receive Authority PBVs, and occupancy of those units will be restricted to households whose incomes do not exceed the income limits established by the PBV HAP Contract. The Sponsor will be requesting 5 more vouchers once the development has been awarded 4% LIHTC or gap financing.

To the extent units within the Development are subject to multiple sets of income limits, the most restrictive income limit will apply so long as the applicable term of affordability continues.

The income of individuals and AMI shall be determined by the Secretary of the Treasury in a manner consistent with determinations of lower income families and AMI under Section 8 of the U.S. Housing Act of 1937, including adjustments for family size.

3. Limitations on Rental Rates:

The Total Housing Expense (contract rent plus tenant-paid utilities) for 97 units is subject to the following limitations:

- a. The Total Housing Expense for 10 units (6 two-bedroom units, and 4 three-bedroom units), may not exceed 1/12th of 30% of the MTSP 30% limit, adjusted for family size and based upon an imputed occupancy of one and one-half persons per bedroom. This restriction will apply until the latest of (i) the end of the Extended Use Period, (ii) 50 years after Initial Closing; or (iii) so long as any Authority loan remains outstanding.
- b. The Total Housing Expense for 14 units (9 two-bedroom units, and 5 three-bedroom units), may not exceed 1/12th of 30% of the MTSP 40% limit, adjusted for family size and based upon an imputed occupancy of one and one-half persons per bedroom. This restriction will apply until the latest of (i) the end of the Extended Use Period, (ii) 50 years after Initial Closing; or (iii) so long as any Authority loan remains outstanding.
- c. The Total Housing Expense for 57 units (36 two-bedroom units, and 21 three-bedroom units), may not exceed 1/12th of 30% of the MTSP 50% limit, adjusted for family size and based upon an imputed occupancy of one and one-half persons per bedroom. This restriction will apply until the latest of (i) the end of the Extended Use Period, (ii) 50 years after Initial Closing; or (iii) so long as any Authority loan remains outstanding.
- d. The Total Housing Expense for 15 units (7 two-bedroom units, and 8 three-bedroom units), may not exceed 1/12th of 30% of the MTSP 60% limit, adjusted for family size and based upon an imputed occupancy of one and one-half persons per bedroom. This restriction will apply until the latest of (i) the end of the Extended Use Period, (ii) 50 years after Initial Closing; or (iii) so long as any Authority loan remains outstanding.
- e. So long as the HAP Contract remains in effect, the Mortgagor agrees to establish and maintain rents for all HAP-assisted units (8 one-bedroom units, and 7 two-

bedroom units) ("Contract Rents") that comply with the rent levels established by the HAP Contract and that do not exceed the levels rent approved by HUD.

- f. 1 unit (2 two-bedroom unit) will be used as a manager's unit. If this unit is later converted to rental use, the Total Housing Expense will be limited to 1/12th of 30% of the MTSP 60% income limit, adjusted for family size and based upon an imputed occupancy of one and one-half persons per bedroom.

The rents to be paid for the units assisted with the PBV HAP Contract may not exceed the rent limits established and published annually by HUD for the PBV Program. To the extent, however, that units within the Development are subject to multiple sets of rent limits, the most restrictive rent limit will apply so long as the applicable term of affordability continues.

To the extent units within the Development are subject to multiple sets of rent limits, the most restrictive rent limit will apply so long as the applicable term of affordability continues.

While rental increases for these units may be permitted from time to time as HUD publishes updated median income limits, the Mortgagor must further agree that rental increases for targeted units that do not receive assistance under the HAP Contract will be limited to not more than 5% for any resident household during any 12-month period.

For the initial lease term of the first household occupying each rent restricted unit in the Development the initial rent may not exceed 105% of the rent approved in this Mortgage Loan Feasibility/Commitment Staff Report. Rental increases on occupied units during any 12-month period will be limited to not more than 5% of the rent paid by the resident household at the beginning of that annual period. Exceptions to this limitation may be granted by the Authority's Director of Asset Management for extraordinary increases in project operating expenses (exclusive of limited dividend payments) or mortgage loan increases. Rents on vacated units may be increased to the maximum level permissible by the applicable programs. Rents and utility allowances must be approved annually by the Authority's Division of Asset Management. Increases in rents relating to PBV-assisted units must also be requested to the assigned PBV Specialist per guidance outlined on the MSHDA/PBV website.

Exceptions to the foregoing limitations may be granted by the Authority's Director of Asset Management to pay for extraordinary increases in operating expenses (exclusive of Limited Dividend Payments) or to enable the owner to amortize a Mortgage Loan increase to fund cost overruns pursuant to the Authority's policy on Mortgage Loan increases.

4. Covenant Running with the Land:

The Mortgagor must subject the Development site to a covenant running with the land so as to preserve the tax-exempt status of the obligations issued or to be issued to finance the Mortgage Loan. This covenant will provide that each unit must be rented or available for rental on a continuous basis to members of the general public for a period ending on the latest of the date which is 15 years after the date on which 50% of the residential units in the Development are occupied, the first day on which no bonds are outstanding with respect to the project, or the date on which assistance provided to the project under Section 8 of the U.S. Housing Act of 1937 terminates. The income of individuals and area median income shall be determined by the Secretary of the Treasury in a manner consistent with

determinations of lower income families and area median income under Section 8 of the U.S. Housing Act of 1937, including adjustments for family size. Until the Secretary of the Treasury publishes its requirements, income of the individuals shall be determined in accordance with Section 8 regulations. Additionally, if LIHTC is awarded to the Development, the Mortgagor must agree to subject the property to the extended low income use commitment required by Section 42 of the Internal Revenue Code.

5. Restriction on Prepayment and Subsequent Use:

The Mortgage Loan is eligible for prepayment after the expiration of 15 years after the commencement of amortization. The Mortgagor must provide the Authority with at least 60 days written notice prior to any such prepayment.

In the event of a prepayment, however, the Mortgagor must pay a prepayment fee equal to the sum of:

- a. 1% of the balance being prepaid;
- b. Any bond call premium, prepayment or swap penalty, or any other cost that the Authority incurs to prepay the bonds or notes that were used to fund the Mortgage Loan; and
- c. Any loss of debt service spread between the Mortgage Loan and the bonds used to finance the loan from the date of the prepayment through the end of the 20th year of amortization.

Once the Mortgagor has been approved for the early prepayment of the underlying loan, it must sign an agreement with the Authority stating it is responsible for the cost of terminating the swap. The Mortgagor can then choose the timing of the termination and participate in the transaction with the swap counterparty. The swap counterparty will quote the cost of terminating the swap and the Mortgagor will have the ability to execute the transaction or cancel at its sole discretion. If the Mortgagor chooses not to terminate the swap, it will forfeit the right to prepay the Mortgage Loan.

Subordinate loans are eligible to prepay at any time upon 60 days prior written notice to the Authority, but prepayment may not extinguish federal affordability and compliance requirements.

6. Operating Assurance Reserve:

At Initial Closing, the Mortgagor shall fund an operating assurance reserve ("OAR") in the amount equal to 6 months of estimated Development operating expenses (estimated to be \$277,476. The syndicator required reserve in the amount of \$138,738 will be deposited into the OAR upon conversion to the permanent loan bringing the total OAR amount to \$416,214. The OAR will be used to fund operating shortfalls incurred at the Development and will be disbursed by the Authority in accordance with the Authority's written policy on the use of the Operating Assurance Reserve, as amended from time to time. The OAR must be either (i) fully funded with cash, or (ii) funded with a combination of cash and an irrevocable, unconditional letter of credit acceptable to the Authority, in an amount that may not exceed 50% of the OAR requirement. To the extent that any portion of the OAR is drawn for use prior to the final closing of the Mortgage Loan, the Mortgagor must restore the OAR to its original balance at final closing.

7. Replacement Reserve:

At Initial Closing, the Mortgagor must establish a replacement reserve fund ("Replacement Reserve") with an initial deposit in an amount of \$6,503 per unit. The Mortgagor must agree to make annual deposits to the Replacement Reserve, beginning on the Mortgage Cut-Off Date, at a minimum of \$300 per unit for the first year of operation, payable in monthly installments, with deposits in subsequent years to be the greater of (i) the prior year's deposit, increased by 3%, or (ii) a percentage of the Development's projected annual rental income or GRP for the year using the percentage obtained by dividing the first year's deposit by the first year's GRP shown on the operating proforma for the Development attached hereto. The annual deposit to the Replacement Reserve may also be increased to any higher amount that is determined to be necessary by the Authority, based on a CNA and the Authority's Replacement Reserve policies. The Authority may update any CNA or obtain a new CNA every five years, or upon any frequency, as determined necessary by the Authority.

8. One Month's Gross Rent Potential:

At Initial Closing, the Mortgagor shall deposit an amount equal to one month's GRP (\$73,305) into the Development's operating account.

9. Authority Subordinate Loan(s):

At Initial Closing, the Mortgagor must enter into written agreements relating to the assumption of the MRF Loan and the assumption of the HOME Loan. The MRF Loan and the HOME Loan will each be secured by a subordinate mortgage. The HOME Loan will bear simple interest at 1% with a 50-year term, and the MRF Loan will bear simple interest at 3% with a 50-year term. No loan payments will be required on either the MRF Loan or the HOME Loan until the earlier of (a) the year in which the sum of all annual surplus funds available for distribution equals or exceeds the amount of the deferred developer fee, or (b) the 13th year following the commencement of amortization of the Mortgage Loan. Interest will continue to accrue on each loan until paid in full.

At the earlier of (a) the year in which the sum of all annual surplus funds available for distribution equals or exceeds the amount of the deferred developer fee or (b) the 13th year following the date that Mortgage Loan amortization commences, repayment of the MRF Loan and the HOME Loan will commence according to the following:

- So long as both of the Mortgage Loan and the MRF Loan remain outstanding, then repayment of the MRF Loan will be made from fifty percent (50%) of any surplus cash available for distribution ("Surplus Funds"), applied first to accrued interest, then to current interest and principal, and no payments will be required on the HOME Loan.
- If the MRF Loan is repaid in full while the Mortgage Loan remains outstanding, then upon repayment of the MRF Loan, repayment of the HOME Loan will commence and be made from fifty percent (50%) of Surplus Funds, applied first to accrued interest, then to current interest and principal.

- Upon payment in full of the Mortgage Loan, if both the MRF Loan and the HOME Loan remain outstanding, then the outstanding balance of the MRF Loan, including accrued interest, will become the new first mortgage loan and will begin amortization with monthly payments equal to the payments made under the original Mortgage Loan. At this time, payments on the HOME Loan will commence and be made from fifty percent (50%) of Surplus Funds, applied first to accrued interest, then to current interest and principal.
- Upon payment in full of both the Mortgage Loan and the MRF Loan, the outstanding balance of the HOME Loan, including accrued interest, will become the new first mortgage loan and will begin amortization with monthly payments equal to the payments made under the original Mortgage Loan.
- The entire principal balance and any accrued interest of the MRF Loan and the HOME Loan will be due and payable after 50 years.

Notwithstanding the foregoing, in the event of any sale or refinance of the Development, the MRF Loan and the HOME Loan will be due and payable at that time

10. Architectural Plans and Specifications; Contractor's Qualification Statement:

Prior to Mortgage Loan Commitment, the architect must submit architectural drawings and specifications that address all design review comments, acceptable to the Authority's Chief Architect and the Director of Development.

Prior to Mortgage Loan Commitment, the general contractor must submit AIA Document A305 as required by the Authority's Chief Architect.

11. Owner/Architect Agreement:

Prior to Mortgage Loan Commitment, the Mortgagor must provide the Authority with an executed Owner Architect Agreement acceptable in form and substance to the Director of Legal Affairs.

12. Trade Payment Breakdown:

Prior to Mortgage Loan Commitment, the general contractor must submit a signed Trade Payment Breakdown acceptable to the Authority's Design and Construction Manager.

13. Section 3 Requirements:

Prior to Mortgage Loan Commitment, the general contractor must agree to comply with all federal Section 3 hiring requirements. The general contractor must provide the contractor's "Section 3 Hiring Plan" which must be reviewed and found acceptable to the Authority's Section 3 Compliance Officer. In addition, the general contractor must agree to adhere to follow-up reporting requirements as established by the Authority.

14. Equal Opportunity and Fair Housing:

Prior to Mortgage Loan Commitment, the management and marketing agent's Affirmative

Fair Housing Marketing Plan must be reviewed and found acceptable to the Authority's Equal Employment Officer for Fair Housing Requirements.

In addition, prior to Mortgage Loan Commitment, the general contractor's Equal Employment Opportunity Plan must be reviewed and found acceptable to the Authority's Equal Employment Officer.

15. Cost Certification:

The contractor's cost certification must be submitted within 90 days following the completion of construction, and the Mortgagor's cost certification must be submitted within 90 days following the Mortgage Cut-off Date. For LIHTC, the owner is obligated to submit cost certifications applicable to itself and the contractor prior to issuance of IRS form 8609 (see LIHTC Program Cost Certification Guidelines).

16. Environmental Review and Indemnification:

Prior to Mortgage Loan Commitment, the Mortgagor must address any outstanding environmental issues, in form and substance acceptable to the Authority's Environmental Review Officer.

At Initial Closing, the Mortgagor must enter an agreement to indemnify the Authority for any loss, damage, liability, claim, or expense which it incurs as a result of any violation of environmental laws. The indemnification agreement must be acceptable to the Director of Legal Affairs.

17. Title Insurance Commitment and Survey:

Prior to Mortgage Loan Commitment, the Mortgagor must provide an updated title insurance commitment, including zoning, pending disbursement, comprehensive, survey and such other endorsements as deemed necessary by the Authority's Director of Legal Affairs. The updated title commitment must contain only exceptions to the insurance acceptable to the Authority's Director of Legal Affairs.

Additionally, prior to Mortgage Loan Commitment, the Mortgagor must provide a surveyor's certificate of facts together with an ALTA survey certified to the 2021 minimum standards, and that appropriately reflects all easements, rights of way, and other issues noted on the title insurance commitment. All documents must be acceptable to the Director of Legal Affairs.

18. Organizational Documents/Equity Pay-In Schedule:

Prior to Mortgage Loan Commitment, the Mortgagor must submit a substantially final form syndication partnership agreement, including an equity pay-in schedule, that is acceptable in form and substance to the Director of Development and Director of Legal Affairs.

At or prior to Initial Closing, the final, executed syndication partnership agreement must become effective and the initial installment of equity must be paid in an amount approved by the Director of Development.

19. Designation of Authority Funds:

The Authority reserves the express right, in its sole discretion, to substitute alternate subordinate funding sources.

20. Management & Marketing:

Prior to Mortgage Loan Commitment, the management and marketing agent must submit the following documents, which must be found acceptable to the Director of Asset Management:

- a. Management Agreement
- b. Marketing/Construction Transition Plan

21. Guaranties:

At Initial Closing, the Sponsor, General Partner, and any entity receiving a developer fee in connection with the Development must deliver certain guaranties. The required guaranties include a guaranty of HOME recapture liability, an operating deficit guaranty and a performance completion guaranty. The required guaranties, the terms thereof and the parties who shall be required to deliver the guaranty must be determined and approved by the Authority's Director of Development.

22. Financial Statements:

Prior to Mortgage Loan Commitment, financial statements for the Sponsor, the guarantor(s) and the general contractor must be reviewed and found acceptable by the Authority's Chief Financial Officer.

If prior to Initial Closing the financial statements that were approved by the Authority become more than six months old, the Sponsor, the guarantor(s) and/or the general contractor must provide the Authority with updated financial statements meeting Authority requirements upon request.

23. Future Contributions:

To ensure the Authority is contributing the least amount of funding necessary to achieve project feasibility, any decrease in Development costs or future contributions not included in the Development proforma may, at the Authority's discretion, be utilized to reduce, in equal proportions, any deferred developer fee and Authority soft funds.

24. Existing Reserves:

At Initial Closing, the Mortgagor and the Seller must agree and confirm the Authority's ownership of the existing reserves balances, with the exception of the tax and insurance, and Debt Coverage Escrow ("DCE") Principal reserves. (The existing reserves that exclude tax and insurance and DCE Principal reserve escrows shall be referred to as "Net Existing Reserves.") The Net Existing Reserves will be captured by the Authority at Initial Closing, as this balance was accounted for within the Gap Financing rankings. This agreement must be acceptable to the Authority's Director of Legal Affairs and the Authority's Director of Asset

Management. The Net Existing Reserves captured by the Authority will not be available to settle or reconcile its accounts payable or to pay any accumulated and/or current year unpaid limited dividend payments.

25. Seller Responsibilities & Surplus Cash/Cumulative Limited Dividend Payment Waiver:

The Seller is responsible for all Development payables due up to the date that Seller's loan is repaid, and ownership of the Development is transferred to Buyer (the "Closing Date"). The Seller must settle its accounts payable on or before the Closing Date and reconcile those amounts in a manner acceptable to the Authority's Director of Asset Management. Within 30 days after the Closing Date, the Seller must submit copies of records and other documents as required by the Authority's Asset Management Division to account for any surplus cash that the Seller may be holding and must remit that cash to the Authority.

The Seller waives any and all rights to any limited dividend payments, unpaid or accrued, cumulative or noncumulative, to which it may have been entitled for the time prior to and including the Closing Date.

26. Transfer and Ownership of Development Reserves:

At Initial Closing, the Development's existing tax and insurance escrows will be transferred to the account of the Mortgagor. In addition, the Mortgagor must enter into an agreement confirming the Authority's ultimate ownership of excess cash reserves, escrows, and accounts as may exist at the time the Authority's mortgage loans are paid off or the Development is sold or refinanced. This agreement must be acceptable to the Authority's Director of Legal Affairs.

27. HAP Extension:

At Initial Closing, the Mortgagor must enter into an agreement to apply for and accept any HAP or other HUD subsidy extensions available in the future, subject to Authority approval.

28. Services for Residents:

10 units (plus an additional 5 units to be added later) are designated as Permanent Supportive Housing ("PSH") units and must be marketed to homeless and or disabled families as defined in the Authority approved Memorandum of Understanding ("MOU"). At or prior to Initial Closing, the Mortgagor must update the MOU with local service providers and a Supportive Services Agreement to provide support services as described in MOU for these tenants for so long as the Mortgagor receives assistance under the HAP contract. The agreement must be acceptable to the Director of Legal Affairs. The cost of these services must be paid from other than loan proceeds, Development operating income and residual receipts.

29. HUD Authority to Use Grant Funds:

Prior to Mortgage Loan Commitment, the Authority must receive HUD's Authority to Use Grant Funds (HUD 7015.16) in connection with the proposed PBVs from the Authority or confirmation that the Development is categorically excluded from NEPA review.

30. HUD Subsidy Layering Review:

Prior to Initial Closing, the subsidy layering review must be performed by Authority staff and must be submitted to HUD for approval. The subsidy layering approval is subject to review and approval by the Authority's Director of Development.

31. Application for Disbursement:

Prior to Initial Closing, the Mortgagor must submit an "Application for Disbursement" along with supporting documentation, which must be found acceptable to the Authority's Director of Development.

32. Uniform Relocation Act Compliance:

If the Development is occupied at Initial Closing and any occupants of the Development will be displaced and/or relocated as a result of the rehabilitation of the Development, then the Mortgagor and/or the Sponsor shall ensure compliance with all requirements of the Uniform Relocation Act and implementing regulations as set forth in 24 CFR Part 42 and 49 CFR Part 24, as well as 24 CFR §570.606. Such compliance shall be at the Mortgagor's or Sponsor's sole cost and expense. Prior to Final Closing, the Mortgagor must submit documentation that it has complied with all requirements of the Uniform Relocation Act. This documentation must be found acceptable by the Authority's Director of Development.

Special Conditions:

1. Legal Requirements:

The Mortgagor and/or Sponsor must submit documentation acceptable to the Authority's Director of Legal Affairs for the items listed below:

- Prior to Initial Closing, update the Title Commitment to reflect acceptable Authority language.
- Prior to Initial Closing, an update PILOT must be submitted and reviewed.
- Prior to Initial Closing, provide approval from Seller's Board of Directors approving sale of property (Seller's obligations under Purchase Agreement are contingent upon Seller obtaining Board Approval from its Board of Directors).
- Prior to Initial Closing, the Michigan Attorney General's Office must complete its review of the transaction and provide the Director of Legal Affairs its recommendation.
- Any other documentation as required by the Director of Legal Affairs, including acceptable evidence of insurance, permits, licenses, zoning approvals, utility availability, payment and performance bonds and other closing requirements.

2. Rent Subsidy Reserve:

At Initial Closing, the Mortgagor must establish a Rent Subsidy Reserve with a one-time deposit in the amount of \$116,816 ("Rent Subsidy Reserve") The Rent Subsidy Reserve shall be held and controlled by the Authority and will be invested and reinvested by the Authority's Finance Division. Interest earned on this reserve, if any, shall become part of this reserve and shall be treated and distributed in the same way. The Rent Subsidy Reserve will be held for a minimum of 6 years following the Mortgage Cut-Off Date. This

subsidy will be available only for the purpose of providing rental subsidies for existing Tenants, who, at the time of closing of the Initial Closing, are residing in units restricted to less than or equal to 60% of AMI. This subsidy will no longer be payable once the tenant's tenancy at the Development is terminated or their income increases to the point where they are no longer eligible for the rent subsidy. The Rent Subsidy Reserve will be used to pay the difference between (1) the rent level established in the mortgage loan commitment, and (2) an existing tenant's current rent as increased at a rate of no more than 5% annually and approved by the Authority. Future tenants will not be eligible to receive this subsidy. The Mortgagor may draw funds out of the Rent Subsidy Reserve on a quarterly basis. All draws must include data specifying the units receiving subsidy payments, as well as the tenant name, move in date, and subsidy amount being drawn. All draws from the Rent Subsidy Reserve must be approved by the Director of Asset Management. The Mortgagor must further provide notice to tenants in units to be assisted by the Rent Subsidy Reserve, describing the proposed rental increases and the extent to which funds in the Rent Subsidy Reserve will be available to mitigate such increases.

Following the expiration of the sixth full year of operation after the Mortgage Cut-Off Date, the Mortgagor may request a release of all or a portion of the funds on deposit in the Rent Subsidy Reserve. The Director of Asset Management or an Authorized Officer of the Authority may approve such a release based on a review of Development operations and a determination that such funds are no longer needed to fund rent subsidies for Subsidized Tenants. Any monies released may, in the Authority's discretion, be applied to fund any other escrows or against current obligations that the Mortgagor owes the Authority. The balance of any monies released will be deposited into the Development's ORC Account fund.

3. Syndicator Reserve:

The Mortgagor shall fund a syndicator held reserve ("Syndicator Reserve") with a one-time deposit in the amount of \$138,738 paid from equity proceeds according to the terms of the Mortgagor's limited partnership agreement. The Syndicator Reserve shall be controlled by the syndicator. The purpose of this reserve will be to fund an additional two- months of operating expenses.

4. True Debt on Assumed Loans:

The Mortgagor must seek the opinion of a tax attorney as it relates to the assumed debt qualifying as true debt for federal tax purposes. A copy of the tax opinion must be provided to the Authority's Director of Legal Affairs prior to Initial Closing.

5. Sponsor Loan:

Prior to Mortgage Loan Commitment, the Mortgagor must submit substantially final documents evidencing the Sponsor loan acceptable to the Authority's Director of Legal Affairs and Director of Development. The Sponsor loan must:

- a) not be secured by a lien on the Development or any of the Development's property, funds or assets of any kind;
- b) be payable solely from approved Limited Dividend payments, and not from other development funds;

- c) be expressly subordinate to all Authority mortgage loans; and
- d) have a loan term exceeding the term of all Authority mortgage loans.

At or prior to Initial Closing, the final, executed Sponsor loan documents must become effective and initial funding of the loan must be made in an amount approved by the Director of Development.

6. Equity Bridge Loan:

An equity bridge loan ("EBL") in the amount of \$500,000 is to be provided by the Mortgagor that is acceptable in form and substance to the Authority's Director of Legal Affairs. The EBL must:

- a) Be deposited with the Authority upon initial disbursement;
- b) Not be secured by a lien or mortgage on the Development or any kind of Development's property, income, funds, escrows and reserves or asset of any kind;
- c) Not be conditioned upon property performance such as economic occupancy levels;
- d) Be expressly subordinate to all Authority Loans, as specified in an intercreditor agreement, as applicable; and
- e) Not be available to bridge any other credits or sources of funding.
- f) Be paid in full on or before the construction completion capital contribution installment.

In the event LIHTC equity is structured to be available prior to construction completion, this Special Condition may be modified consistent with the subordinate loan provisions of the Parameters as acceptably modified by the Director of Legal Affairs.

DEVELOPMENT TEAM AND SITE INFORMATION

I. MORTGAGOR: Pinehurst Preservation Limited Dividend Housing Association
Limited Partnership

II. GUARANTOR(S):

A. Guarantor #1:

Name: Full Circle Communities, Inc.
Address: 310 South Peoria Street, Suite 500
Chicago, IL 60607

III. DEVELOPMENT TEAM ANALYSIS:

A. Sponsor:

Name: Full Circle Communities, Inc.
Address: 310 South Peoria Street, Suite 500

**Mortgage Feasibility/Commitment Staff Report
Pinehurst Townhomes, MSHDA No. 955-2
Township of Oshtemo, Kalamazoo County
8/2/21**

Chicago, IL 60607

Individuals Assigned: Denise Reyes
Telephone: 773-391-1960
E-mail: dreyesi@fccommunities.org

1. **Experience:** The Sponsor has experience working on Authority-financed developments.
2. **Interest in the Mortgagor and Members:** 99.99% Limited Partner /.01% General Partner

B. Architect:

Name: Cordogan Clark & Associates, Inc.
Address: 716 N Wells Street
Chicago, IL 60654

Individual Assigned: Therese Thompson
Telephone: 312-943-7300
E-Mail: Tthompson@cordoganclark.com

1. **Experience:** Architect has previous experience with Authority-financed developments.
2. **Architect's License:** License number 1301035955, with an expiration date of 8/10/2023.

C. Attorney:

Name: Wenzloff & Fireman P.C.
Address: 903 N. Jackson Street
Bay City, MI 48708

Individual Assigned: Joshua Fireman
Telephone: 989-893-9511
Fax: 989-893-6988

1. **Experience:** This firm has experience in closing Authority-financed developments.

D. Builder:

Name: Wolverine Building Group
Address: 4045 Barden SE
Grand Rapids, MI 49512

Individual Assigned: Landon Jones
Telephone: 616-281-6230
E-mail: Ljones@wolvgroup.com

1. **Experience:** The firm has previous experience in constructing Authority-financed developments.
2. **State Licensing Board Registration:** License number 2102199076, with an expiration date of 5/31/2022.

E. Management and Marketing Agent:

Name: Medallion Management, Inc.
Address: 834 King Highway
Kalamazoo, MI 49001

Individual Assigned: Scott Beltz
Telephone: 269-381-0350
E-mail: sbeltz@medallionmgmt.com

1. **Experience:** This firm has significant experience managing Authority-financed developments.

F. Development Consultant:

Name: Colliers International
Address: 333 Bridge Street NW, Suite 1200
Grand Rapids, MI 49504

Individual Assigned: Tom Caldwell
Telephone: 517-242-1337
Email: tomcaldwell@colliers.com

G. Development Team Recommendation: Go

IV. SITE DATA:

- A. **Land Control/Purchase Price:**
\$3,365,000
- B. **Site Location:**
6740 Andover Drive, Kalamazoo, MI 49009
- C. **Size of Site:**
Approximately 14.28
- D. **Density:**
Deemed Appropriate
- E. **Physical Description:**
 1. **Present Use:** Rental Housing

2. Existing Structures: 12 separate housing unit buildings and a management office/Community building
 3. Relocation Requirements: None
- F.** Zoning: Residence District. Multifamily dwellings such as Pinehurst Townhomes are a permitted use per Article 9 of Zoning Ordinance. Site is grandfathered in as non-conforming under Article 63 of Zoning Ordinance.
- G.** Contiguous Land Use:
1. North: Residential
 2. South: Residential
 3. East: Residential
 4. West: Residential
- H.** Tax Information:
The Township of Oshtemo, has provided a 4% PILOT. The Sponsor is working with the Township to update the PILOT with Authority PILOT ordinance language and to extend the PILOT to the term of the new mortgage loan period.
- I.** Utilities: Consumers Energy provides the Electric, and the City of Kalamazoo provides the Water and Sewer
- J.** Community Facilities:
1. Shopping: Full-service grocery store within a mile of site
 2. Recreation:
Flesher field is nearby, which is a 24-acre park that features sports fields, pavilions, and playgrounds
 3. Public Transportation:
There is a bus stop at the corner of stadium and South 9th Street
 4. Road Systems
Site is located between South 8th and 9th Street and just off of Stadium Drive, a major throughfare in the City of Kalamazoo
 5. Medical Services and other Nearby Amenities:
Bronson Fast Care is approximately 4 miles away and Bronson Hospital is approximately 15 miles from the site
 6. Description of Surrounding Neighborhood:
Mostly residential with some retail, just west of the Western Michigan University campus

7. Local Community Expenditures Apparent:
None apparent
8. Indication of Local Support:
4% PILOT

VI. DESIGN AND COSTING STATUS:

Architectural plans and specifications consistent with the scope of work have been reviewed by the Chief Architect. A response to all design review comments and the submission of corrected and final plans and specifications must be made prior to initial closing.

This proposal will satisfy the State of Michigan barrier-free requirements, the Authority's policy regarding accessibility and non-discrimination for the disabled, the Fair Housing Amendments Act of 1988, and the HOME requirements for barrier-free vision and hearing designed units. Construction documents must be acceptable to the Authority's Chief Architect.

VII. MARKET SUMMARY:

The Market study has been reviewed by the Authority's Chief Market Analyst and found to be acceptable. The Authority's Chief Market Analyst has reviewed and approved the unit mix, rental structure, and unit amenities.

VIII. EQUAL OPPORTUNITY AND FAIR HOUSING:

The contractor's Equal Employment Opportunity Plan is currently being reviewed and must be approved by the Authority's Design and Construction Manager prior to initial closing. The management and marketing agent's Affirmative Fair Housing Marketing Plan has been approved.

IX. MANAGEMENT AND MARKETING:

The management/marketing agent has submitted application-level management and marketing information, to be approved prior to initial closing by the Authority's Director of Asset Management.

X. FINANCIAL STATEMENTS:

The sponsor's/guarantor's and the builder's financial statements have been submitted and are to be approved prior to initial closing by the Authority's Director of Rental Development.

XI. DEVELOPMENT SCHEDULING:

- | | |
|--------------------------------------|---------------|
| A. Mortgage Loan Commitment: | August 2021 |
| B. Initial Closing and Disbursement: | November 2021 |
| C. Construction Completion: | August 2022 |
| D. Cut-Off Date: | November 2022 |

XII. ATTACHMENTS:

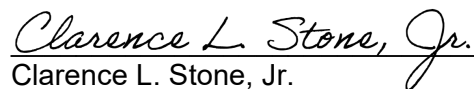
A. Development Proforma

APPROVALS:



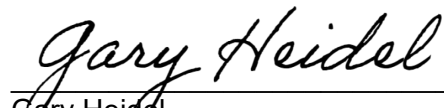
Chad Benson
Director of Development

Date



Clarence L. Stone, Jr.
Director of Legal Affairs

Date



Gary Heidel
Acting Executive Director

Date

Development Pinehurst
Financing Tax Exempt
MSHDA No. 955-2
Step Commitment
Date 08/02/2021
Type Preservation - Subsidized

Instructions

TOTAL DEVELOPMENT COSTS										Per Unit	Total	% in Basis	Included in Tax Credit Basis	Included in Historic TC Basis											Per Unit	Total	% in Basis	Included in Tax Credit Basis	Included in Historic TC Basis	OAR Funded				
																																	Yr 1	4 Month OAR
Acquisition																																		
Land						12,113	1,175,000	0%	0	0											4,291	416,214	0%	0	0	277,476	277,476							
Existing Buildings						6,340	614,993	100%	614,993	0											6,503	630,790	0%	0	0									
Other: Assumed HOME & MRF Loans						16,237	1,575,007	100%	1,575,007	0											0	0	0%	0	0									
Subtotal						34,691	3,365,000																											
Construction/Rehabilitation																																		
Off Site Improvements						0		100%	0	0											0	0	0%	0	0									
On-site Improvements						4,665	452,500	100%	452,500	0											0	0	0%	0	0									
Landscaping and Irrigation						0		100%	0	0											0	0	0%	0	0									
Structures						46,471	4,507,656	100%	4,507,656	4,507,656											0	0	0%	0	0									
Community Building and/or Maintenance Facility						0		100%	0	0											0	0	0%	0	0									
Construction not in Tax Credit basis (i.e.Carpports and Commercial Space)						0		0%	0	0											0	0	0%	0	0									
General Requirements	% of Contract	6.00%	Within Range			3,068	297,609	100%	297,609	297,609											756	73,305	0%	0	0									
Builder Overhead	% of Contract	2.00%	Within Range			1,084	105,155	100%	105,155	105,155											0	0	0%	0	0									
Builder Profit	% of Contract	6.00%	Within Range			3,317	321,775	100%	321,775	321,775											0	0	100%	0	0									
Permits, Bond Premium, Tap Fees, Cost Cert.						897	87,000	100%	87,000	87,000											0	0	100%	0	0									
Other:						0		100%	0	0																								
Subtotal						59,502	5,771,695														756	73,305												
15% of acquisition and \$15,000/unit test:							met																											
Professional Fees																																		
Design Architect Fees						1,428	138,480	100%	138,480	138,480																								
Supervisory Architect Fees						357	34,620	100%	34,620	34,620																								
Engineering/Survey						361	35,000	100%	35,000	35,000																								
Legal Fees						1,031	100,000	100%	100,000	100,000																								
Subtotal						3,176	308,100																											
Interim Construction Costs																																		
Property & Causality Insurance						0		100%	0	0																								
Construction Loan Interest	Override	261,959				2,701	261,959	75%	196,469	196,469																								
Title Work						309	30,000	100%	30,000	0																								
Bridge Loan interest						541	52,488	100%	52,488	52,488																								
Other: Bridge loan costs						206	20,000	100%	20,000	20,000																								
Subtotal						3,757	364,447																											
Permanent Financing																																		
Loan Commitment Fee to MSHDA	2%					1,859	180,300	0%	0	0																								
						0		#	0%	0	0																							
Subtotal						1,859	180,300																											
Other Costs (In Basis)																																		
Application Fee						21	2,000	100%	2,000	2,000																								
Market Study						67	6,500	100%	6,500	6,500																								
Environmental Studies						206	20,000	100%	20,000	20,000																								
Cost Certification						309	30,000	100%	30,000	30,000																								
Equipment and Furnishings						1,031	100,000	100%	100,000	0																								
Temporary Tenant Relocation						825	80,000	100%	80,000	80,000																								
Construction Contingency						5,950	577,170	100%	577,170	577,170																								
Appraisal and C.N.A.						103	10,000	100%	10,000	10,000																								
Other:						0		100%	0	0																								
Subtotal						8,512	825,670																											
Other Costs (NOT In Basis)																																		
Start-up and Organization						0		0%	0	0																								
Tax Credit Fees (based on 2017 QAP)	28,625	Within Range				295	28,625	0%	0	0																								
Compliance Monitoring Fee (based on 2017 QAP)						470	45,600	0%	0	0																								
Marketing Expense						103	10,000	0%	0	0																								
Syndication Legal Fees						567	55,000	0%	0	0																								
Rent Up Allowance					months	0	0	0%	0	0																								
Other:						0		0%	0	0																								
Subtotal						1,435	139,225																											
Summary of Acquisition Price										Outstanding Debt		Construction Loan Term																						
Attributed to Land	1,175,000										Months																							
Attributed to Existing Structures	614,993										9																							
Other: Assumed HOME & MRF	1,575,007										3																							
Fixed Price to Seller	3,365,000										12																							
						Premium/(Deficit) vs Existing Debt		276,353																										
Appraised Value										Value As of: June 17, 2020																								
"Encumbered As-Is" value as determined by appraisal:																																		
Plus 5% of Appraised Value:																																		
LESS Fixed Price to the Seller:																																		
Surplus/(Gap)										Within Range		0																						
Project Reserves																																		
Operating Assurance Reserve										4.0 months		Funded in Cash																						
Replacement Reserve												Required																						
Operating Deficit Reserve												Not Required																						
Rent Subsidy Reserve																																		
Syndicator Held Reserve																																		
Rent Lag Escrow																																		
Tax and Insurance Escrows																																		
Other: Rent Subsidy Reserve																																		
Other:																																		
Subtotal						12,248	1,188,052																											
Miscellaneous																																		
Deposit to Development Operating Account (1MGRP)										Required																								
Other (Not in Basis):																																		
Other (In Basis):																																		
Other (In Basis):																																		
Subtotal						756	73,305																											
Total Acquisition Costs										34,691	3,365,000																							
Total Construction Hard Costs										59,502	5,771,695																							
Total Non-Construction ("Soft") Costs										31,743	3,079,099																							
Developer Overhead and Fee																																		
Maximum										1,490,890	15,370	1,490,890																						
7.5% of Acquisition/Project Reserves										Override	5% Attribution Test																							
15% of All Other Development Costs											met																							
Total Development Cost						141,306	13,706,684																											
TOTAL DEVELOPMENT SOURCES																																		
MSHDA Permanent Mortgage										51.03%	72,115	6,995,161																						
Conventional/Other Mortgage										0.00%	0	0																						
Equity Contribution from Tax Credit Syndication										28.27%	39,946	3,874,784																						
MSHDA NSP Funds										0.00%	0																							
MSHDA HOME or Housing Trust Funds										0.00%	0																							
Mortgage Resource Funds										0.00%	0																							
Other:										0.00%	0																							
Local HOME										0.00%	0																							
Income from Operations										2.87%	4,049	392,721																						
Other Equity Sponsor Loan										2.02%	2,849	276,353																						
Transferred Reserves:										0.18%	250	24,232																						
Other: Assumed Debt HOME										7.84%	11,083	1,075,007																						
Other: Assumed Debt MRF										3.65%	5,155	500,000																						
Deferred Developer Fee										4.15%	5,860	568,426																						
Total Permanent Sources												13,706,684																						
Sources Equal Uses?										Balanced																								
Surplus/(Gap)										0																								
MSHDA Construction Loan										65.77%	92,938	9,015,000																						
Construction Loan Rate										3.950%																								
Repaid from equity prior to final closing												2,019,839																						
Eligible Basis for LIHTC/TCAP																																		
Acquisition										2,279,500	Acquisition	91,180																						
Construction										8,605,813	Construction	344,233																						
Acquisition Credit %										4.00%	Total Yr Credit	435,412																						
Rehab/New Const Credit %										4.00%	Equity Price	\$0.8900																						
Qualified Percentage										100.00%	Equity Effective Price	\$0.8900																						
QCT/DDA Basis Boost										100%	Equity Contribution	3,874,784																						
Historic?																																		
Initial Owner's Equity Calculation																																		
Equity Contribution from Tax Credit Syndication										3,874,784																								
Brownfield Equity																																		
Historic Tax Credit Equity																																		
General Partner Capital Contributions																																		
Other Equity Sources																																		
New Owner's Equity																																		

Mortgage Assumptions:	
Debt Coverage Ratio	1.15
Mortgage Interest Rate	3.950%
Pay Rate	3.950%
Mortgage Term	40 years
Income from Operations	Yes

Total Development Income Potential

<u>Total Development Income Potential</u>	<u>Per Unit</u>	<u>Total</u>
Annual Rental Income	9,069	879,660
Annual Non-Rental Income	52	5,000
Total Project Revenue	9,120	884,660

Total Development Expenses

<u>Total Development Expenses</u>				
Vacancy Loss	5.00%	of annual rent potential	453	43,983
Management Fee	534	per unit per year	534	51,798
Administration			1,119	108,590
Project-paid Fuel			82	8,000
Common Electricity			82	8,000
Water and Sewer			436	42,272
Operating and Maintenance			1,166	113,064
Real Estate Taxes			0	
Payment in Lieu of Taxes (PILOT)	4.00%	Applied to: All Units	321	31,096
Insurance			400	38,800
Replacement Reserve	300	per unit per year	300	29,100
Other: Utilities for 15 new Voucher Units			98	9,504
Other:			0	

[illegible]

	% of Revenue			
Total Expenses	54.73%	4,992	484,207	
Base Net Operating Income		4,128	400,453	Override
Part A Mortgage Payment	39.36%	3,590	348,220	
Part A Mortgage		72,115	6,995,161	
Non MSHDA Financing Mortgage Payment		0		
Non MSHDA Financing Type:		0		
Base Project Cash Flow (excludes ODR)	5.90%	538	52,233	

Development Pinehurst
Financing Tax Exempt
MSHDA No. 955-2
Step Commitment
Date 07/22/2021
Type Preservation - Subsidized

Instructions

Income Limits for	Kalamazoo County (Effective April 1,2020)					
	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person
30% of area median	16,590	18,960	21,330	23,700	25,620	27,510
40% of area median	22,120	25,280	28,440	31,600	34,160	36,680
50% of area median	27,650	31,600	35,550	39,500	42,700	45,850
60% of area median	33,180	37,920	42,660	47,400	51,240	55,020

Rental Income

Unit	No. of Units	Unit Type	Bedrooms	Baths	Net Sq. Ft.	Contract Rent	2021 AM approved rent	Utilities	Total Housing Expense	Gross Rent	Current Section 8	% of Gross Rent	% of Total Units	Gross Square Feet	% of Total Square Feet	TC Units Square Feet	Unit Type	Max Allowed Housing Expense
30% Family	<u>Area Median Income Units Occupancy</u>																	
A	6	Townhome	2	1.0	960	395	362	107	502	28,440		3.2%	6.2%	5,760	5.6%	5,760		533
D	4	Townhome	3	2.0	1,250	440	400	132	572	21,120		2.4%	4.1%	5,000	4.8%	5,000		616
										49,560	0	5.6%	10.3%	10,760	10.4%	10,760		
40% Family	<u>Area Median Income Units Occupancy</u>																	
B	9	Townhome	2	1.0	960	563	520	107	670	60,804	0	6.9%	9.3%	8,640	8.4%	8,640		711
D	5	Townhome	3	2.0	1,250	665	579	132	797	39,900	0	4.5%	5.2%	6,250	6.1%	6,250		822
										100,704	0	11.4%	14.4%	14,890	14.4%	14,890		
50% Family	<u>Area Median Income Units Occupancy</u>																	
A	28	Townhome	2	1.0	960	745	669	107	852	250,320	0	28.5%	28.9%	26,880	26.1%	26,880		888
F	14	Townhome	3	2.0	1,250	840	751	132	972	141,120	0	16.0%	14.4%	17,500	17.0%	17,500		1,027
										391,440	0	44.5%	43.3%	44,380	43.0%	44,380		
60% Family	<u>Area Median Income Units Occupancy</u>																	
B	7	Townhome	2	1.0	960	862	NA	107	969	72,408	0	8.2%	7.2%	6,720	6.5%	6,720		1,066
D	8	Townhome	3	2.0	1,250	971	NA	132	1,103	93,216	0	10.6%	8.2%	10,000	9.7%	10,000		1,233
										165,624	0	18.8%	15.5%	16,720	16.2%	16,720		
50% Yes Family	<u>Area Median Income Units MSHDA Project Based Voucher Units Occupancy</u>																	
B	3	Townhome	2	1.0	960	815	660	0	815	29,340	0	3.3%	3.1%	2,880	2.8%	2,880		888
C	5	Townhome	2	1.0	960	829	660	0	829	49,740	0	5.7%	5.2%	4,800	4.7%	4,800		888
D	5	Townhome	3	2.0	1,250	1,121	889	0	1,121	67,260	0	7.6%	5.2%	6,250	6.1%	6,250		1,027
E	2	Townhome	3	2.0	1,250	1,083	889	0	1,083	25,992	0	3.0%	2.1%	2,500	2.4%	2,500		1,027
										172,332	0	19.6%	15.5%	16,430	15.9%	16,430		
Mgrs	1	Townhome	2	2.0						0	0	0.0%	0.0%	0	0.0%	0		
														103,180		103,180		

Total Tenant Units 97
Manager Units 1
Income Average 48.02%
Set Aside 98.97%

Gross Rent Potential	879,660
Average Monthly Rent	756
Gross Square Footage	103,180

HOME Units SF/Total Units SF 0.0%
HOME Units/# Total Units 0.0%

Within Range
Within Range

Annual Non-Rental Income

Misc. and Interest	5,000
Laundry	
Carports	
Other:	
Other:	
	5,000

Utility Allowances

	Tenant-Paid	Tenant-Paid	Tenant-Paid	Tenant-Paid	Tenant-Paid		
	Electricity	A/C	Gas	Water/Sewer	Other	Total	Override
A						0	107
B						0	107
C						0	107
D						0	132
E						0	132
F						0	132
G						0	
H						0	

Total Income	Annual	Monthly
Rental Income	879,660	73,305
Non-Rental Income	5,000	417
Total Project Revenue	884,660	73,722

Cash Flow Projections

Development	Pinehurst
Financing	Tax Exempt
MSHDA No.	955-2
Step	Commitment
Date	07/22/2021
Type	Preservation - Subsidized

				07/22/2021																			
				Type Preservation - Subsidized																			
	Initial Initiator	Starting in Yr	Future Initiator	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Income																							
Annual Rental Income	1.0%	6	2.0%	879,660	888,457	897,341	906,315	915,378	933,685	952,359	971,406	990,834	1,010,651	1,030,864	1,051,481	1,072,511	1,093,961	1,115,840	1,138,157	1,160,920	1,184,139	1,207,821	1,231,978
Annual Non-Rental Income	1.0%	6	2.0%	5,000	5,050	5,101	5,152	5,203	5,307	5,413	5,521	5,632	5,745	5,859	5,977	6,096	6,218	6,342	6,469	6,599	6,731	6,865	7,003
Total Project Revenue				884,660	893,507	902,442	911,466	920,581	938,992	957,772	976,928	996,466	1,016,396	1,036,723	1,057,458	1,078,607	1,100,179	1,122,183	1,144,626	1,167,519	1,190,689	1,214,687	1,238,980
Expenses																							
Vacancy Loss Management Fee	5.0%	6	3.0%	43,983	44,423	44,867	45,316	45,769	28,011	28,571	29,142	29,725	30,320	30,926	31,544	32,175	32,819	33,475	34,145	34,828	35,524	36,235	36,959
Administration	3.0%	1	3.0%	51,798	53,352	54,952	56,601	58,299	60,048	61,850	63,705	65,616	67,585	69,612	71,701	73,852	76,067	78,349	80,700	83,121	85,614	88,183	90,828
Project-paid Fuel	3.0%	1	3.0%	108,590	111,848	115,203	118,659	122,219	125,886	129,662	133,552	137,559	141,685	145,936	150,314	154,823	159,468	164,252	169,180	174,255	179,483	184,867	190,413
Common Electricity	3.0%	6	3.0%	8,000	8,240	8,487	8,742	9,004	9,274	9,552	9,839	10,134	10,438	10,751	11,074	11,406	11,748	12,101	12,464	12,838	13,223	13,619	14,028
Water and Sewer	4.0%	6	3.0%	8,000	8,320	8,653	8,999	9,359	9,640	9,929	10,227	10,533	10,849	11,175	11,510	11,856	12,211	12,578	12,955	13,344	13,744	14,156	14,581
Operating and Maintenance	5.0%	6	5.0%	42,272	44,386	46,605	48,935	51,382	53,951	56,649	59,481	62,455	65,578	68,857	72,299	75,914	79,710	83,696	87,880	92,374	96,888	101,733	106,819
Real Estate Taxes	3.0%	1	3.0%	113,064	116,456	119,950	123,548	127,255	131,072	135,004	139,054	143,226	147,523	151,949	156,507	161,202	166,038	171,019	176,150	181,435	186,878	192,484	198,258
Payment in Lieu of Taxes (PILOT)	5.0%	1	5.0%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Insurance	3.0%	1	3.0%	31,096	31,324	31,549	31,773	31,995	33,312	33,906	34,509	35,119	35,739	36,366	37,002	37,646	38,299	38,960	39,629	40,305	40,990	41,683	42,384
Replacement Reserve	3.0%	1	3.0%	38,800	39,964	41,163	42,398	43,670	44,980	46,329	47,719	49,151	50,625	52,144	53,708	55,320	56,979	58,688	60,449	62,263	64,130	66,054	68,036
Other: Utilities for 15 new Voucher Units	3.0%	1	3.0%	29,100	29,973	30,872	31,798	32,752	33,735	34,747	35,789	36,863	37,969	39,108	40,281	41,490	42,734	44,016	45,337	46,697	48,098	49,541	51,027
Other:	3.0%	1	3.0%	9,504	9,789	10,083	10,385	10,697	11,018	11,348	11,689	12,039	12,401	12,773	13,156	13,550	13,957	14,376	14,807	15,251	15,709	16,180	16,665
Subtotal: Operating Expenses				484,207	498,074	512,384	527,154	542,400	540,926	557,547	574,706	592,421	610,711	629,596	649,097	669,235	690,031	711,510	733,695	756,610	780,281	804,735	829,999
Debt Service																							
Debt Service Part A				348,220	348,220	348,220	348,220	348,220	348,220	348,220	348,220	348,220	348,220	348,220	348,220	348,220	348,220	348,220	348,220	348,220	348,220	348,220	348,220
Debt Service Conventional/Other Financing				0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenses				832,427	846,293	860,604	875,374	890,620	889,146	905,767	922,926	940,641	958,931	977,816	997,317	1,017,454	1,038,251	1,059,730	1,081,914	1,104,829	1,128,501	1,152,955	1,178,219
Cash Flow/(Deficit)				52,233	47,213	41,838	36,092	29,961	49,847	52,005	54,002	55,825	57,465	58,907	60,141	61,153	61,928	62,453	62,712	62,690	62,369	61,732	60,761
Cash Flow Per Unit				538	487	431	372	309	514	536	557	576	592	607	620	630	638	644	647	646	643	636	626
Debt Coverage Ratio on Part A Loan	1.15	1.14	1.12	1.10	1.09	1.10	1.15	1.16	1.16	1.16	1.16	1.17	1.17	1.17	1.17	1.18	1.18	1.18	1.18	1.18	1.18	1.17	
Debt Coverage Ratio on Conventional/Other Financing				N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Interest Rate on Reserves				3%	Average Cash Flow as % of Net Income																		
Operating Deficit Reserve (ODR) Analysis																							
Maintained Debt Coverage Ratio (Hard Debt)	1.00																						
Maintained Operating Reserve (No Hard Debt)	250																						
Initial Balance	Initial Deposit		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total Annual Draw to achieve 1.0 DCR			0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total Annual Deposit to achieve Maintained DCR			0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total 1.0 DCR and Maintained DCR			0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Interest			0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Ending Balance at Maintained DCR			0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Maintained Cash Flow Per Unit			538	487	431	372	309	514	536	557	576	592	607	620	630	638	644	647	646	643	636	626	
Maintained Debt Coverage Ratio on Part A Loan			1.15	1.14	1.12	1.10	1.09	1.15	1.16	1.16	1.16	1.17	1.17	1.17	1.17	1.18	1.18	1.18	1.18	1.18	1.18	1.17	
Maintained Debt Coverage Ratio on Conventional/Other Standard ODR			0																				
Non-standard ODR			0																				
Operating Assurance Reserve Analysis																							
Initial Balance	Required in Year: 1		277,476																				
Interest Income			277,476																				
Ending Balance			277,476	277,476	285,800	294,374	303,205	312,301	321,670	331,320	341,260	351,498	362,043	372,904	384,091	395,614	407,482	419,707	432,298	445,267	458,625	472,384	486,555
Deferred Developer Fee Analysis																							
Initial Balance			568,426	516,193	468,980	427,142	391,050	361,089	311,243	259,238	205,236	149,411	91,946	33,039	0	0	0	0	0	0	0	0	0
Dev Fee Paid			52,233	47,213	41,838	36,092	29,961	49,847	52,005	54,002	55,825	57,465	58,907	33,039	0	0	0	0	0	0	0	0	0
Ending Balance	Repaid in yez 0		516,193	468,980	427,142	391,050	361,089	311,243	259,238	205,236	149,411	91,946	33,039	0	0	0	0	0	0	0	0	0	0
Mortgage Resource Fund Loan																							
Interest Rate on Subordinate Financing	3%		Initial Balance		500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Principal Amount of all MSHDA Soft Funds			15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Current Yr Int			0	15,000	30,000	45,000	60,000	75,000	90,000	105,000	120,000	135,000	150,000	165,000	166,449	150,872	134,908	118,682	102,326	85,981	69,797	53,931	
Accrued Int			0	15,000	30,000	45,000	60,000	75,000	90,000	105,000	120,000	135,000	150,000	165,000	166,449	150,872	134,908	118,682	102,326	85,981	69,797	53,931	
Subtotal			515,000	530,000	545,000	560,000	575,000	590,000	605,000	620,000	635,000	650,000	665,000	680,000	681,449	665,872	649,908	633,682	617,326	600,981	584,797	568,931	
Annual Payment Due			0	0	0	0	0	0	0	0	0	0	0	0	13,551	30,576	30,964	31,227	31,356	31,345	31,184	30,866	30,381
Year End Balance			515,000	530,000	545,000	560,000	575,000	590,000	605,000	620,000	635,000	650,000	665,000	680,000	686,449	650,872	634,908	618,682	602,326	585,981	569,797	553,931	538,555

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
RESOLUTION DETERMINING MORTGAGE LOAN FEASIBILITY
PINEHURST TOWNHOMES, MSHDA DEVELOPMENT NO. 955-2
TOWNSHIP OF OSHTEMO, KALAMAZOO COUNTY

August 2, 2021

WHEREAS, the Michigan State Housing Development Authority (the "Authority") is authorized under the provisions of Act No. 346 of the Public Acts of 1966 of the State of Michigan, as amended (the "Act"), to make mortgage loans to qualified non-profit housing corporations, consumer housing cooperatives and limited dividend housing corporations and associations; and

WHEREAS, an Application for Mortgage Loan Feasibility has been filed with the Authority by Full Circle Communities, Inc. (the "Applicant") for a multifamily housing project to be located in the Township of Oshtemo, Kalamazoo County, Michigan, having an estimated total development cost of Thirteen Million Seven Hundred Six Thousand Six Hundred Eighty-Four Dollars (\$13,706,684), a total estimated maximum mortgage loan amount of Nine Million Fifteen Thousand Dollars (\$9,015,000) and an assumption of the existing Mortgage Resource Fund Loan in the amount of Five Hundred Thousand Dollars (\$500,000) (hereinafter referred to as the "Application"); and

WHEREAS, a housing association to be formed by the Applicant may become eligible to receive a mortgage loan from the Authority under the provisions of the Act and the Authority's General Rules; and

WHEREAS, the Acting Executive Director has forwarded to the Authority his analysis of the Application and his recommendations with respect thereto; and

WHEREAS, the Authority has considered the Application in the light of the Authority's project mortgage loan feasibility evaluation factors.

NOW, THEREFORE, Be It Resolved by the Michigan State Housing Development Authority as follows:

1. The following determinations be and they hereby are made:
 - a. The proposed housing project will provide housing for persons of low and moderate income and will serve and improve the residential area in which Authority-financed housing is located or is planned to be located, thereby enhancing the viability of such housing.
 - b. The Applicant is reasonably expected to be able to achieve successful completion of the proposed housing project.
 - c. The proposed housing project will meet a social need in the area in which it is to be located.
 - d. A mortgage loan, or a mortgage loan not made by the Authority that is a

federally-aided mortgage, can reasonably be anticipated to be obtained to provide financing for the proposed housing project.

- e. The proposed housing project is a feasible housing project.
- f. The Authority expects to allocate to the financing of the proposed housing project proceeds of its bonds issued or to be issued for multifamily housing projects a maximum principal amount not to exceed Nine Million Fifteen Thousand Dollars (\$9,015,000).

2. The proposed housing project be and it is hereby determined to be feasible for a mortgage loan on the terms and conditions set forth in the Mortgage Loan Feasibility/Commitment Report of the Authority Staff presented to the meeting, subject to any and all applicable determinations and evaluations issued or made with respect to the proposed housing project by other governmental agencies or instrumentalities or other entities concerning the effects of the proposed housing project on the environment as evaluated pursuant to the federal National Environmental Policy Act of 1969, as amended, and the regulations issued pursuant thereto as set forth in 24 CFR Part 58.

3. The determination of feasibility is based on the information obtained from the Applicant and the assumption that all factors necessary for the successful construction and operation of the proposed project shall not change in any materially adverse respect prior to the closing. If the information provided by the Applicant is discovered to be materially inaccurate or misleading, or any factors necessary for the successful construction and operation of the proposed project change in any materially adverse respect, this feasibility determination resolution may, at the option of the Executive Director, the Chief Housing Investment Officer, the Director of Legal Affairs, the Deputy Director of Legal Affairs, the Chief Financial Officer, the Deputy Director of Finance or any person duly authorized to act in any of the foregoing capacities (each an "Authorized Officer"), be immediately rescinded.

4. Neither this determination of feasibility nor the execution prior to closing of any documents requested to facilitate processing of a proposed mortgage loan to be used in connection therewith constitutes a promise or covenant by the Authority that it will make a Mortgage Loan to the Applicant.

5. This determination of Mortgage Loan Feasibility is conditioned upon the availability of financing to the Authority. The Authority does not covenant that funds are or will be available for the financing of the subject proposed housing development.

6. The Authority hereby approves the prepayment of the Mortgage Loan and the sale of the housing project by the seller to the Applicant, subject to the terms and conditions contained in the Staff Report and also subject to the issuance of a mortgage loan commitment by the Authority.

7. The Authority hereby approves a waiver of the prepayment penalty fees required under the 2015 Workout Agreement.

8. The Authority hereby approves an amendment to the regulatory agreements converting fifteen units, currently income and rent restricted to 50% AMI, to 60% AMI upon unit turnover.

9. The Mortgage Loan Feasibility determination is subject to the conditions set forth in the Mortgage Loan Feasibility/Commitment Staff Report dated August 2, 2021, which conditions are hereby incorporated by reference as if fully set forth herein.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
RESOLUTION AUTHORIZING MORTGAGE LOAN
PINEHURST TOWNHOMES, MSHDA DEVELOPMENT NO. 955-2
TOWNSHIP OF OSHTEMO, KALAMAZOO COUNTY

August 2, 2021

WHEREAS, the Michigan State Housing Development Authority (the "Authority") is authorized, under the provisions of Act No. 346 of the Public Acts of 1966 of the State of Michigan, as amended (hereinafter referred to as the "Act"), to make mortgage loans to qualified nonprofit housing corporations, consumer housing cooperatives, limited dividend housing corporations and associations and certain qualified individuals; and

WHEREAS, an application (the "Application") has been filed with the Authority by Full Circle Communities, Inc. (the "Applicant") for a construction mortgage loan in the amount of Nine Million Fifteen Thousand Dollars (\$9,015,000), and a permanent mortgage loan in the amount of Six Million Nine Hundred Ninety-Five Thousand One Hundred Sixty-One Dollars (\$6,995,161), for the construction and permanent financing of a multi-family housing project having an estimated total development cost of Thirteen Million Seven Hundred Six Thousand Six Hundred Eighty-Four Dollars (\$13,706,684), to be known as Pinehurst Townhomes, located in the Township of Oshtemo, Kalamazoo County, Michigan, and to be owned by Pinehurst Preservation Limited Dividend Housing Association Limited Partnership (the "Mortgagor"); and

WHEREAS, the Applicant has also requested an assumption of the existing Mortgage Reserve Fund Loan in the estimated amount of Five Hundred Thousand Dollars (\$500,000) (the "MRF Loan") and an assumption of the existing mortgage loan under the HOME Investment Partnerships Program using HOME funds in the estimated amount of One Million Seventy-Five Thousand Seven Dollars (\$1,075,007) (the "HOME Loan"); and

WHEREAS, the Acting Executive Director has forwarded to the Authority his analysis of the Application and his recommendation with respect thereto; and

WHEREAS, the Authority has reviewed the Application and the recommendation of the Acting Executive Director and, on the basis of the Application and recommendation, has made determinations that:

- (a) The Mortgagor is an eligible applicant;
- (b) The proposed housing project will provide housing for persons of low and moderate income and will serve and improve the residential area in which Authority-financed housing is located or is planned to be located thereby enhancing the viability of such housing;
- (c) The Applicant and the Mortgagor are reasonably expected to be able to achieve successful completion of the proposed housing project;

- (d) The proposed housing project will meet a social need in the area in which it is to be located;
- (e) The proposed housing project may reasonably be expected to be marketed successfully;
- (f) All elements of the proposed housing project have been established in a manner consistent with the Authority's evaluation factors, except as otherwise provided herein;
- (g) The construction or rehabilitation will be undertaken in an economical manner and it will not be of elaborate design or materials; and
- (h) In light of the estimated total project cost of the proposed housing project, the amount of the mortgage loan authorized hereby is consistent with the requirements of the Act as to the maximum limitation on the ratio of mortgage loan amount to estimated total project cost.

WHEREAS, the Authority has considered the Application in the light of the criteria established for the determination of priorities pursuant to General Rule 125.145 and hereby determines that the proposed housing project is consistent therewith; and

WHEREAS, Sections 83 and 93 of the Act provide that the Authority shall determine a reasonable and proper rate of return to limited dividend housing corporations and associations on their investment in Authority-financed housing projects.

NOW, THEREFORE, Be It Resolved by the Michigan State Housing Development Authority as follows:

1. The Application be and it hereby is approved, subject to the terms and conditions of this Resolution, the Act, the General Rules of the Authority, and of the Mortgage Loan Commitment hereinafter authorized to be issued to the Applicant and the Mortgagor.

2. A construction and permanent mortgage loan (the "Mortgage Loan") be and it hereby is authorized and the Executive Director, the Chief Housing Investment Officer, the Director of Legal Affairs, the Deputy Director of Legal Affairs, the Chief Financial Officer or any person duly authorized to act in any of the foregoing capacities, or any one of them acting alone (each an "Authorized Officer"), are hereby authorized to issue to the Applicant and the Mortgagor the Authority's Mortgage Loan Commitment (the "Commitment") for the construction financing of the proposed housing project in an amount not to exceed Nine Million Fifteen Thousand Dollars (\$9,015,000), and permanent financing in an amount not to exceed Six Million Nine Hundred Ninety-Five Thousand One Hundred Sixty-One Dollars (\$6,995,161), and to have a term of forty (40) years after amortization of principal commences and to bear interest at a rate of three and 95/100 percent (3.95%) per annum. The amount of proceeds of tax-exempt bonds issued or to be issued and allocated to the financing of this housing project shall not exceed Nine Million Fifteen Thousand Dollars (\$9,015,000). Any Authorized Officer is hereby authorized to modify or waive any condition or provision contained in the Commitment.

3. The existing MRF Loan is authorized to be assumed by the Mortgagor in the amount of Five Hundred Thousand Dollars (\$500,000), and to have a term not to exceed fifty (50) years and to bear interest at a rate of three percent (3%) per annum.

4. The mortgage loan commitment resolution and issuance of the Mortgage Loan Commitment are based on the information obtained from the Applicant and the assumption that all factors necessary for the successful construction and operation of the proposed project shall not change in any materially adverse respect prior to the closing. If the information provided by the Applicant is discovered to be materially inaccurate or misleading, or any factors necessary for the successful construction and operation of the proposed project change in any materially adverse respect, this mortgage loan commitment resolution together with the commitment issued pursuant hereto may, at the option of an Authorized Officer, be rescinded.

5. Notwithstanding passage of this resolution or execution of any documents in anticipation of the closing of the proposed mortgage loan, no contractual rights to receive the mortgage loan authorized herein shall arise unless and until an Authorized Officer shall have issued a Mortgage Loan Commitment and the Applicant shall have agreed in writing within fifteen days after receipt thereof, to the terms and conditions contained therein.

6. The proposed housing project be and it hereby is granted a priority with respect to proceeds from the sale of Authority securities which are determined by the Acting Executive Director to be available for financing the construction and permanent loans of the proposed housing project. Availability of funds is subject to the Authority's ability to sell bonds at a rate or rates of interest and at a sufficient length of maturity so as not to render the permanent financing of the development unfeasible.

7. In accordance with Section 93(b) of the Act, the maximum reasonable and proper rate of return on the investment of the Mortgagor in the housing project be and it hereby is determined to be twelve percent (12%) per annum initially. Following the payment in full of the MRF Loan and the HOME Loan, the Mortgagor's rate of return may be increased by one percent (1%) annually until a cap of twenty-five percent (25%) is reached.

8. The Authority hereby waives Section VI.I.2 of the Multifamily Direct Lending Parameters adopted on June 28, 2017, requiring the payment in lieu of taxes to be found acceptable prior to the adoption of this resolution.

9. The Authority hereby waives Section VIII.A of the Multifamily Direct Lending Parameters adopted on June 28, 2017, prohibiting the assumption of existing secondary financing in preservation transactions.

10. The Authority hereby waives Section VI.A of the Multifamily Direct Lending Parameters adopted on June 28, 2017, requiring for underwriting purposes, on all new construction or acquisition-rehab transactions, that the debt coverage ratio be at 1.2.

11. The Mortgage Loan shall be subject to, and the Commitment shall contain, the conditions set forth in the Mortgage Loan Feasibility/Commitment Staff Report dated August 2, 2021, which conditions are hereby incorporated by reference as if fully set forth herein.



MSHDA

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

M E M O R A N D U M

TO: Authority Members

FROM: Gary Heidel, Acting Executive Director

DATE: August 26, 2021

RE: Revised Procedures and Requirements for Mortgage Loan Increases

RECOMMENDATION:

I recommend that the Michigan State Housing Development Authority (the "Authority") adopt the attached revised Procedures and Requirements for Mortgage Loan Increases ("Mortgage Loan Increase Policy").

EXECUTIVE SUMMARY:

The Mortgage Loan Increase Policy was originally adopted in 1993 to allow for mortgage loan increases to cover the cost of unanticipated expenses and other loan changes. It was updated in 2003 and 2006. Based upon a recent review of the requirements and process for approval of increases covered by the Mortgage Loan Increase Policy; it is recommended that the Mortgage Loan Increase Policy be updated as follows and as detailed in the marked and clean copies of the revised Mortgage Loan Increase Policy accompanying this memorandum: (1) increase the maximum loan increase amount, without Board action, to \$900,000 or 5%, whichever is less and (2) clarify that all loans for a specific development are considered in the 5% increase calculation. A delegated action report will be provided to the Board identifying any loan increases pursuant to this policy.

ADVANCING THE AUTHORITY'S MISSION:

The revised Mortgage Loan Increase Policy will allow for more efficient development closings.

COMMUNITY ENGAGEMENT/IMPACT:

None.

ISSUES, POLICY CONSIDERATIONS, AND RELATED ACTIONS:

None.

**MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
MORTGAGE LOAN INCREASE POLICY
AUGUST 26, 2021**

Requests for mortgage loan increase are generally considered in preparation for mortgage loan closing, after completion of construction and the submission of the contractor's and mortgagor's cost certification. In the case of unforeseen delays in the start of construction, additional and unavoidable costs incurred early in construction (unanticipated soil conditions or environmental remediation), or changes in feasibility such as increased income limits, a mortgage loan increase may be considered.

Without Board action, mortgage loan increases are limited to a maximum of 5% of the original mortgage loan amount or \$900,000, whichever is less, and will be available to fund increased eligible costs. For this purpose, the original mortgage amount is defined to include any subordinate loans in addition to the first mortgage and the increase may be applied to any one loan or distributed among the various loans. The 5% or \$900,000 increase test is calculated based on the aggregate change of all original MSHDA mortgage loans, including any increases or decreases in gap funding (for example, if a Mortgage Resource Fund loan is reduced the reduction may offset an increase in a Tax-Exempt Bond Loan in determining the aggregate 5% or \$900,000 increase calculation across all MSHDA loans).

The Executive Director will approve loan increases consistent with this policy after review and recommendation by staff. Authority Board approval will be required for all other loan increase requests.

Mortgage loan increases will generally be permitted for the following purposes:

1. Construction cost increases, documented by Authority-approved change orders or an Authority-approved trade payment breakdown.
2. Other acceptable development cost increases, including cost-certified overruns in non-construction line items (such as construction interest, taxes, title work, and insurance). Miscellaneous cost-certified expenses clearly attributable to the completion of the development and paid to independent third parties may also be funded.
3. Interest rate changes, approved rent increases, operational expense changes, or increases and decreases to sources and uses.

The Authority's commitment fee and reserves requirements will be recalculated and reflected in the revised pro-forma.

An application for a mortgage loan increase must be submitted by the mortgagor and must include the following:

1. Description of the eligible costs for which additional funds are being requested;
2. Evidence the development can support the increased debt service, including a revised proforma, current rent roll, if available, proposed rents, and MSHDA approved annual budget;
3. Evidence all change orders for which the mortgagor has been held solely responsible have been paid.

Examples of items for which loan increases will not be considered include, but are not limited to:

1. Overruns in certified non-construction costs paid to related parties, such as accounting, brokerage, or marketing fees;
2. Construction cost overruns not attributable to changes in the plans and specifications or documented by change order;
3. Construction change orders for which the mortgagor has been found to be responsible;
4. Interest or penalty charges (other than interest on the mortgage loan or other funds advanced by the Authority) that the mortgagor is obligated to pay; and
5. Unusual legal and accounting fees resulting for the sale of the partnership interests or from litigation.

A delegated action report will be provided to the Board identifying any loan increases pursuant to this policy.